DCC | CDC

TRANSFORMATION AT WORK

DEFENCE CONSTRUCTION CANADA **ANNUAL REPORT 2012–2013**

Canada

CORPORATE PROFILE

Defence Construction (1951) Limited (operating as Defence Construction Canada or DCC) is a Crown corporation that provides infrastructure services and full lifecycle support for Canada's defence requirements. It has two primary Client-Partners: one is the infrastructure and environment (IE) group at the Department of National Defence (DND); the other is the Communications Security Establishment Canada (CSEC). From project needs planning to building decommissioning, DCC's work covers a broad spectrum of activities. DCC's resources are divided among five service lines.

Construction Services

The Construction Services team supports the creation, renovation and maintenance of facilities for DND's infrastructure and environmental program.

Contract Services

The Contract Services team carries out the procurement of goods and professional, construction and maintenance services to fulfill Canada's domestic and international defence infrastructure needs.

Environmental Services

Environmental Services helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk.

Project And Program Management Services

The Project and Program Management Services line advises DND on matters such as building requirements, program planning, and schedule and document control.

Real Property Management Services

From needs planning to facility decommissioning, the Real Property Management Services team ensures DND's real property assets are managed efficiently throughout their lifecycles.

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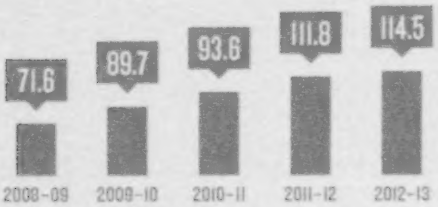
Defence Construction Canada
Construction de Défense Canada

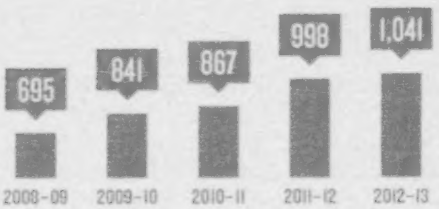
Cover photo: DCC staff (l to r) Nicolas Hitz, Don Hastings and Yves-Marie Dubois inspect the exterior of Hangar 2 being constructed for the new 3 model Hercules at 8 Wing Trenton. Almost complete, the new hangar is to 11,500 m² LEED Silver aircraft maintenance facility with approximately 2,500 tons of steel and 250 kilometres of electrical wires.

PERFORMANCE HIGHLIGHTS

SERVICES REVENUE (in millions of dollars)

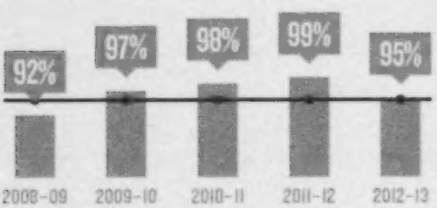


NUMBER OF EMPLOYEES (based on full-time equivalents)



CLIENT SATISFACTION RATING

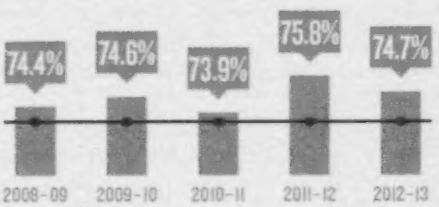
TARGET: 95%



UTILIZATION RATE

(percentage of employee hours spent on billable contract work)

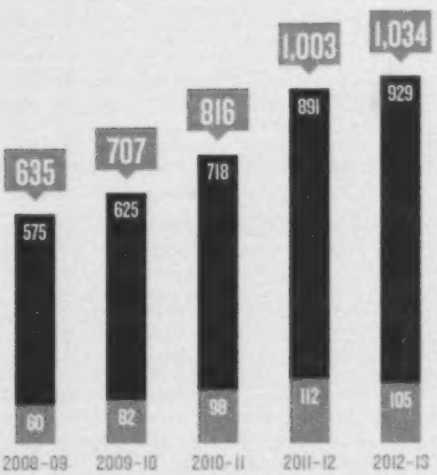
TARGET: 70%



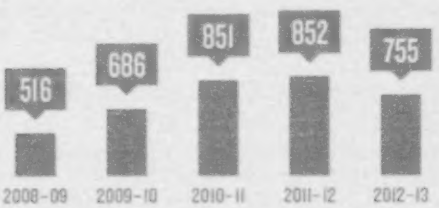
CONTRACT PAYMENTS (in millions of dollars)

PROFESSIONAL SERVICES

CONSTRUCTION SERVICES AND GOODS



VALUE OF CONTRACTS AWARDED (in millions of dollars)



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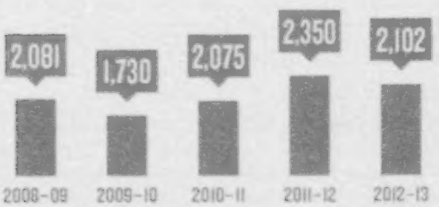


TIMES OF TRANSFORMATION PROVIDE BOTH CHALLENGE AND OPPORTUNITY. AT DCC, WE RECOGNIZE THIS DUAL NATURE OF CHANGE, RESPONDING WITH MORE THAN 60 YEARS OF EXPERIENCE SUPPORTING THE DEPARTMENT OF NATIONAL DEFENCE AND THE CANADIAN ARMED FORCES.

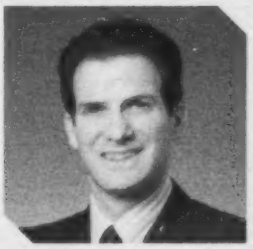
Throughout that history we have used our flexibility to align our organization with the changes driving our Client-Partners – combining the depth of our corporate memory with the strength and integrity of our employees.

This stable foundation allows us to nimbly respond as current conditions change, creating flexible and improved solutions as DND/CAF deals with transition. While we focus externally on supporting our Client-Partners, we also focus internally, on adapting our processes to ensure that we continue to deliver the best possible value for money for the Government of Canada and for all Canadians.

AS OUR BUSINESS ENVIRONMENT CHANGES, DCC ADAPTS. THIS IS WHAT WE HAVE ALWAYS DONE. THIS IS WHAT WE CONTINUE TO DO.

Interior view of new central heating plant at 12 Wing Shearwater, Nova Scotia

MESSAGE FROM THE CHAIR



The long partnership between Defence Construction Canada and its Client-Partners, the Department of National Defence and Communications Security Establishment Canada, has been marked by periods of significant transformation. Throughout each of them, DCC has responded by adapting quickly, anticipating the changes required.

Our ability to transform to meet new and constantly evolving requirements is based on our defining role as a Crown corporation, offering a nimble and deft response to our Client-Partners. Our depth of experience over the years complements this, giving us a corporate memory that provides a critical perspective as we support DND.

Structure and experience are only part of the equation, however. Our success in managing change also depends on the essential questions that we ask ourselves daily. What is our impact? Are we making a difference? How are we contributing to DND's mission?

These questions are central to an organization's ability to evaluate itself. It is not just about budget numbers; it is, ultimately, about the value we provide.

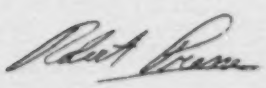
Consider the sophistication and the breadth of the work we do. DCC's collaboration with industry and government put us in a groundbreaking role for public-private partnership (P3) models. We have implemented a clear and ethical Procurement Code of Conduct for suppliers, we are moving towards a completely electronic procurement and bonding process, and we are actively working on a process of electronic, three-dimensional Building Information Modelling that could revolutionize how we design facilities. In addition, we are responding to the government priority to integrate security throughout the facilities we touch, our contracting processes and our information technology.

This leading-edge position in our industry allows us to provide advice not just to DND, but to other government departments, sharing our concepts to build even greater value. And it relies in great part on the flexibility and commitment of DCC's employees, who share our belief that we should never stop improving.

These are people who understand that whether they are selecting a floor covering or pre-qualifying contractors, no decision is ever inconsequential to those who will stand on that floor or maintain the facility being built. We build for the long term, making decisions with the confidence that knowledge and experience bring. This drive for optimizing each and every process ensures that we make those decisions with fairness, transparency and integrity.

We understand that this is a critical part of ensuring we are actively engaging with industry, attracting not just a variety of bids but the best contractors and suppliers. Since we seek out the best, internally and externally, we produce ever-increasing value for our Client-Partners and the people of Canada.

DCC continuously adapts, improves and optimizes, no matter how the business environment changes. Transformation is key to our success.



ROBERT PRESSER
Chair of the Board of Directors

MESSAGE FROM THE PRESIDENT

Defence Construction Canada has supported the Department of National Defence through more than six decades, and more recently, the Communications Security Establishment Canada (CSEC), continuously innovating in all areas of our operations to offer our Client-Partners unparalleled adaptability and flexibility as its missions and business environment have changed. This agility lies at the heart of our relationship with DND.

Innovation and transformation continue to be priorities for DCC. Looking at this from the highest level, we have updated our mission, vision and value statements to ensure these guiding forces remain, like DCC, relevant and resonant. In particular, our updated values demonstrate how we approach our business: Dedication, Collaboration, Competence, Fairness.

The addition of Collaboration to our values reflects the relationship we have built over the years with our key partners: DND, CSEC and the Canadian Armed Forces, other government departments, industry representatives and our suppliers. Collaboration means listening. Working through differences to find common ground. Supporting each other during times of change and challenge.

Our collaborative approach lies at the heart of our adaptability, which is how we successfully respond to the changing needs of DND and the Government of Canada. In the past several years, we have adjusted our service offerings and our workforce to ensure we provide the right programs and the right personnel at the right time and location.

But transformation is only part of the solution. We are also focused on optimizing our operations to ensure that we are enhancing the value proposition we offer to our Client-Partners. Our ultimate goal is to deliver the best quality services in a timely manner for our Client-Partners, with the utmost integrity.

Every element of our transformation depends on our continued ability to optimize those three points: quality, timeliness and value. And it is increasingly imperative that we demonstrate the value for money we provide. This work includes optimizing DCC's service delivery matrix model, examining our processes to identify where we could be more efficient and more effective. And we are analyzing current performance. We are carrying out benchmarking so that we can accurately compare ourselves to other service delivery options to demonstrate we are delivering value, we have developed new key performance indicators and proactively improved our ability to report on all of this.

Complementing our internal work is our collaboration with our Client-Partners, as we create innovative solutions that offer both service and cost savings. We recognize, as we have always done, that we must respond to current conditions while also positioning DCC and DND for success in the coming years.

As we renew and transform our business, there is much to look forward to in DCC's future. We are doing important work and delivering it to exacting standards, in which we can rightly take pride.

JAMES S. PAUL
President and Chief Executive Officer

ADAPT

KEEPING IN STEP WITH THE TIMES

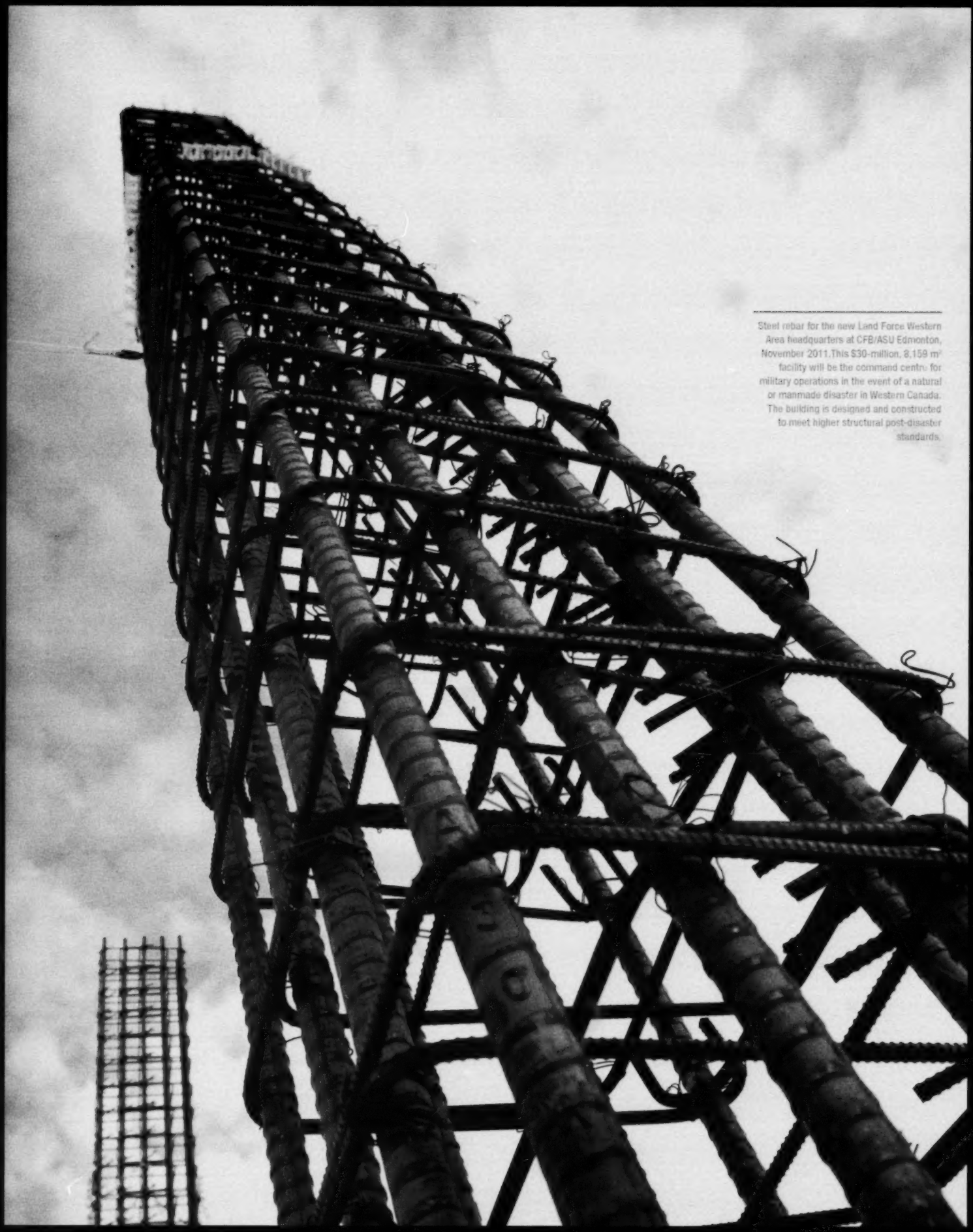
FROM HARNESSING THE EVER-INCREASING POWER OF ADVANCED TECHNOLOGY TO PROTECTING THE SECURITY OF BOTH BUILDINGS AND INFORMATION, DCC CONTINUALLY EVOLVES WITH THE CHANGING BUSINESS ENVIRONMENT. THIS AGILITY LIES DEEP WITHIN DCC'S ORGANIZATIONAL DNA, LINKED TO ITS FOCUS ON DEMONSTRATING THE HIGH VALUE AND INTEGRITY OF ITS PROCESSES TO MEET BOTH CURRENT AND FUTURE NEEDS.

DCC has always worked hard to earn its reputation for fairness and openness. In 2012–13, DCC codified this focus, implementing a Procurement Code of Conduct for all contracts that brings together in one document the ethical responsibilities of its many contractors. This accountable, transparent approach has positioned DCC to increase industry's confidence in its processes – without adding significant time or cost to procurement.

Throughout DCC, employees work collaboratively with industry to meet our Client-Partners' unique requirements. For example, the new $30-million, 8,159 m² headquarters building for Land Forces Western Area in Edmonton will be the military's command centre if manmade or natural disasters occurred in Western Canada. DCC is helping local contractors ensure the building meets higher structural post-disaster standards than is the norm in that region, so that it would still be standing and its systems functioning after a seismic load such as an earthquake.

DCC is also harnessing the potential of technology, working towards a full e-procurement process – including closing tenders and e-bonding – that would help eliminate non-compliant bids. This is expected to create considerable savings in time and money for DND and DCC. In addition, DCC has developed a facilities management service delivery framework that creates real property management best practices, achieves value for money and demonstrates sound stewardship.

Similarly, DCC is partnering with DND and industry on Building Information Modelling (BIM), work that could revolutionize how buildings are designed. Imagine "walking" through a building in 3D before a single shovel of soil is moved: BIM offers an integrated building system database that combines all design, construction, lifecycle and operational information into one file for a building, allowing every stakeholder to view the building, how it operates, and any potential conflicting design elements.



Steel rebar for the new Land Force Western Area headquarters at CFB/ASU Edmonton, November 2011. This $30-million, 8,159 m² facility will be the command centre for military operations in the event of a natural or manmade disaster in Western Canada. The building is designed and constructed to meet higher structural post-disaster standards.

OPTIMIZE

IMPROVING THROUGH INNOVATION

DCC STRIVES TO CONTINUOUSLY IMPROVE AND OPTIMIZE. THIS LEADS TO IMPROVED SERVICE DELIVERY, GENERATES VALUE FOR CANADIANS AND CONTRIBUTES TO DCC BEING AN EMPLOYER OF CHOICE.

DCC's carefully considered evolution to a service line delivery matrix was fully implemented in 2008–09; in 2012–13, DCC completed principles-based optimization sessions for all five of its service lines. The organization turned to its experts – its people – for this essential next step. The result is streamlined processes and services and an updated, principles-based Operations Manual for all service lines that encourages employees to always seek the best, most efficient solutions.

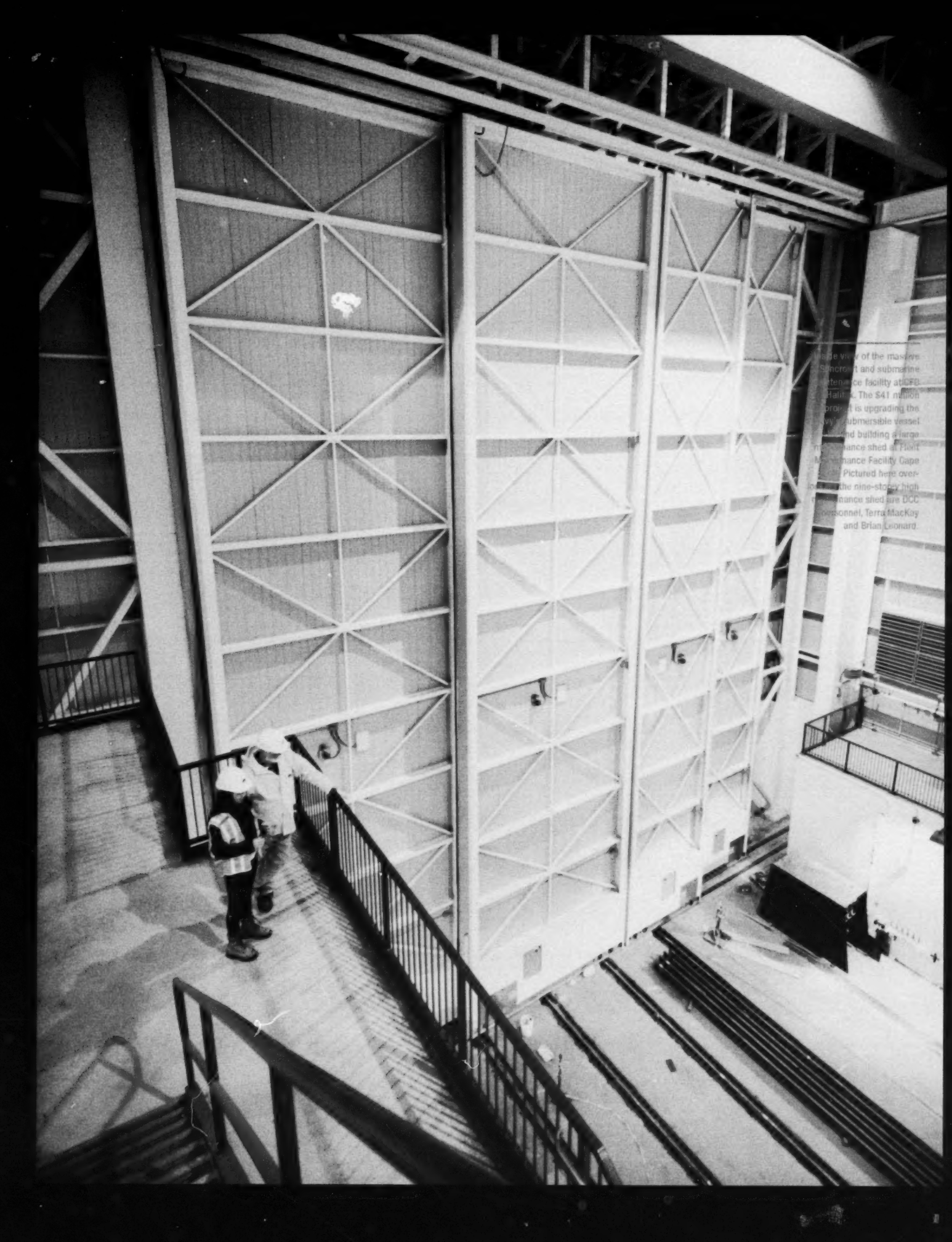
At the same time, DCC's service line integration matrix (SLIM) reporting initiative is focusing on obtaining the data needed to support its operations. It has already created a chart of accountabilities to clarify roles within the service line delivery matrix, while the SLIM time entry system has allowed for more integrity in the data, and an accurate, highly valuable comparison of the services provided by private industry.

The organization's responsiveness to internal and external views also led it to modify its enterprise risk management framework. The new framework has now been implemented, and is reviewed regionally each quarter, with risks identified as high being placed on the corporate risk register. This has allowed DCC to move to the use of a streamlined, cost-effective contracting and contract management process for all low-risk projects under $1 million.

DCC's focus on learning and innovating, on becoming more efficient, has the added advantage of creating a beneficial workplace. To support this, DCC is continuously improving its health and safety programs, including incorporating cost-effective online training tools and social media to help increase employee engagement, and increasing collaboration with safety leaders within DND/CAF.

DCC's Ideas at Work program has been in place for several years and its success has been in influencing employee innovations and workplace culture. The program has gained momentum at all levels of the Corporation and encouraged enhanced collaboration with its service lines.

DCC has also implemented a new competency-based performance management system that fosters a principles-based, decision-making culture. This encourages strong performance, identifies critical positions and supports training and development by linking accountabilities with results.



...ide view of the massive ...ircraft and submarine ...tenance facility at CFB ...Halifax. The $41 million ...project is upgrading the ...ass submersible vessel ...and building a large ...nance shed at Fleet ...nance Facility Cape ... Pictured here over- ...the nine-storey high ...nance shed are DCC ...ersonnel, Terra MacKay and Brian Leonard.

COLLABORATE

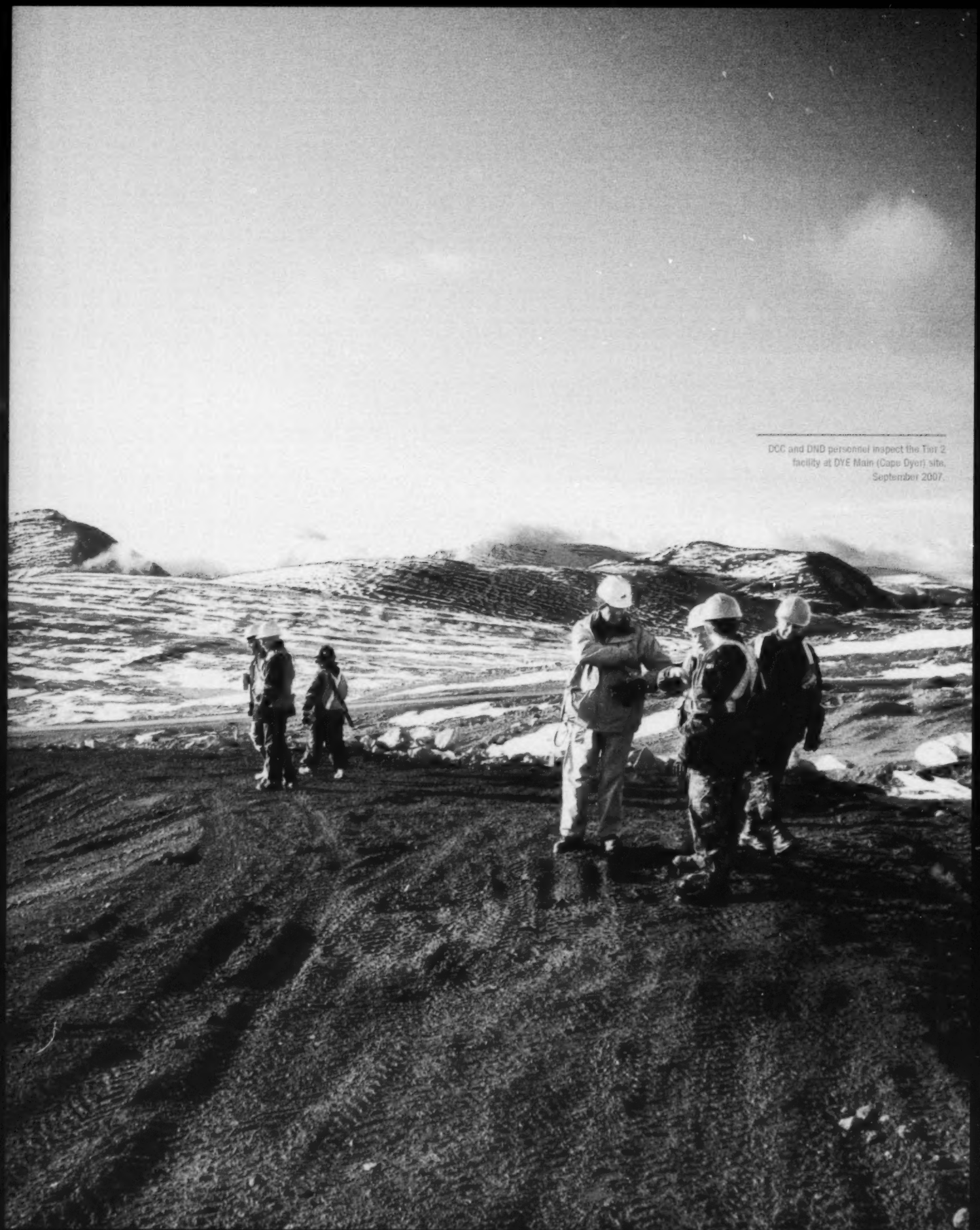
LEVERAGING SHARED EXPERTISE

DURING THESE CHANGING TIMES, DCC'S LONG PARTNERSHIP WITH DND MEANS IT HAS THE SPECIALIZED EXPERTISE AND CORPORATE MEMORY TO COLLABORATE WITH DND, HELPING IT MEET ITS SPECIALIZED COMMITMENTS, INCLUDING HERITAGE AND ENVIRONMENTAL RESPONSIBILITIES.

One outstanding example of these mutual projects is the environmental clean-up of the Distant Early Warning (DEW) Line. These 21 1950s-era radar sites were considered essential for Canada's protection during the Cold War. In the early 1990s, with a mission to inspect, clean up and monitor the sites, DND turned to DCC's environmental services experts for assistance. Clean-up work on the 20-year project will be complete in 2013, moving into the monitoring stage at all sites and ensuring that the northern environment is protected far into the future.

DCC and DND are also working together to ensure public safety across the country and in the waters along our coasts. The DND Unexploded Explosive Ordnance and Legacy Sites Program began in 2005 to identify and reduce risks at these sites, many of which date back to World War II – such as the four ships sunk by German U-Boats near Newfoundland. DCC is managing the contract there to survey two of the underwater wreckages to determine the exact locations and quantities of unexploded munitions for eventual removal, while respecting the war graves of the sailors who were lost.

The future is as important to DCC as the past: it is working with DND on Green Globes environmental certification, for facilities valued under $10 million. The partners successfully tested this process with the construction of the Joint Personnel Support Unit that houses staff and facilities to provide support and care to ill and injured CF personnel and their families in Halifax. And in Wainwright, DCC's environmental expertise has helped DND upgrade a water treatment plant that not only cleans wastewater for the base and the local community, but protects the drinking water supply and the environment.



DCC and DND personnel inspect the Tier 2 facility at DYE Main (Cape Dyer) site, September 2007.

PARTNER

RESPONDING WITH FLEXIBILITY AND AGILITY

DCC'S ORGANIZATIONAL STRUCTURE ENABLES IT TO IMMEDIATELY RESPOND TO – AND OFTEN ANTICIPATE – DND'S CHANGING NEEDS. EVEN MORE IMPORTANTLY, THE ORGANIZATION RESPONDS WITH AGILITY. AS A CROWN CORPORATION, DCC HAS GREAT FLEXIBILITY IN ESTABLISHING ITS OPERATING POLICIES AND PRACTICES. THIS GIVES DCC THE ABILITY TO QUICKLY SCALE UP OR DOWN AS NEEDED: FOR EXAMPLE, TO RAPIDLY ADJUST ITS WORKFORCE TO MEET THE DEMANDS OF A CHANGING CAPITAL PROGRAM TO ENSURE CONTINUED VALUE FOR THE CROWN.

In particular, DCC's move to an optimized service delivery matrix means it can put the right people in the right place at the right time. Transformation is business as usual for DCC, whether it means moving an expert temporarily from the West Coast to the East Coast to oversee critical dockyard projects, or deploying personnel internationally, such as in Afghanistan. On Exercise Tradewinds in Barbados in winter 2012, local suppliers proved reluctant to contract with an "unknown" organization; DCC put representatives on the ground to solicit bids and pay immediately for materials. This built critical trust with suppliers, allowed military engineers to begin construction, and protected the procurement system's integrity.

Back at home, DCC has worked with DND and the Communications Security Establishment Canada (CSEC), on CSEC's long-term accommodation project in Ottawa: a state-of-the-art facility housing the largest repository of top-secret information in Canada. DCC played a critical and award-winning role in developing the project's public-private partnership (P3), including unique security, infrastructure and financing arrangements.

In 2012–13, the Corporation also worked with DND to create a new training course that builds the knowledge base and expertise of civilian staff in the real property area. Introduction to Managing Real Property at DND is the first real property training course of its kind: an online, self-paced, bilingual and fully accessible tool that helps ensure a consistent approach to real property assets across the country. Wherever, and however, DND's needs are identified, DCC has proven it can provide solutions.

Aerial photo of the construction of CSEC's new accommodation facility, December 2012. Built using a public-private partnership, the building will span more than 72,000 m². The associated design-build-finance-maintain contract includes unique security infrastructure and financing arrangements.

IMPROVE

DEMONSTRATING RESULTS

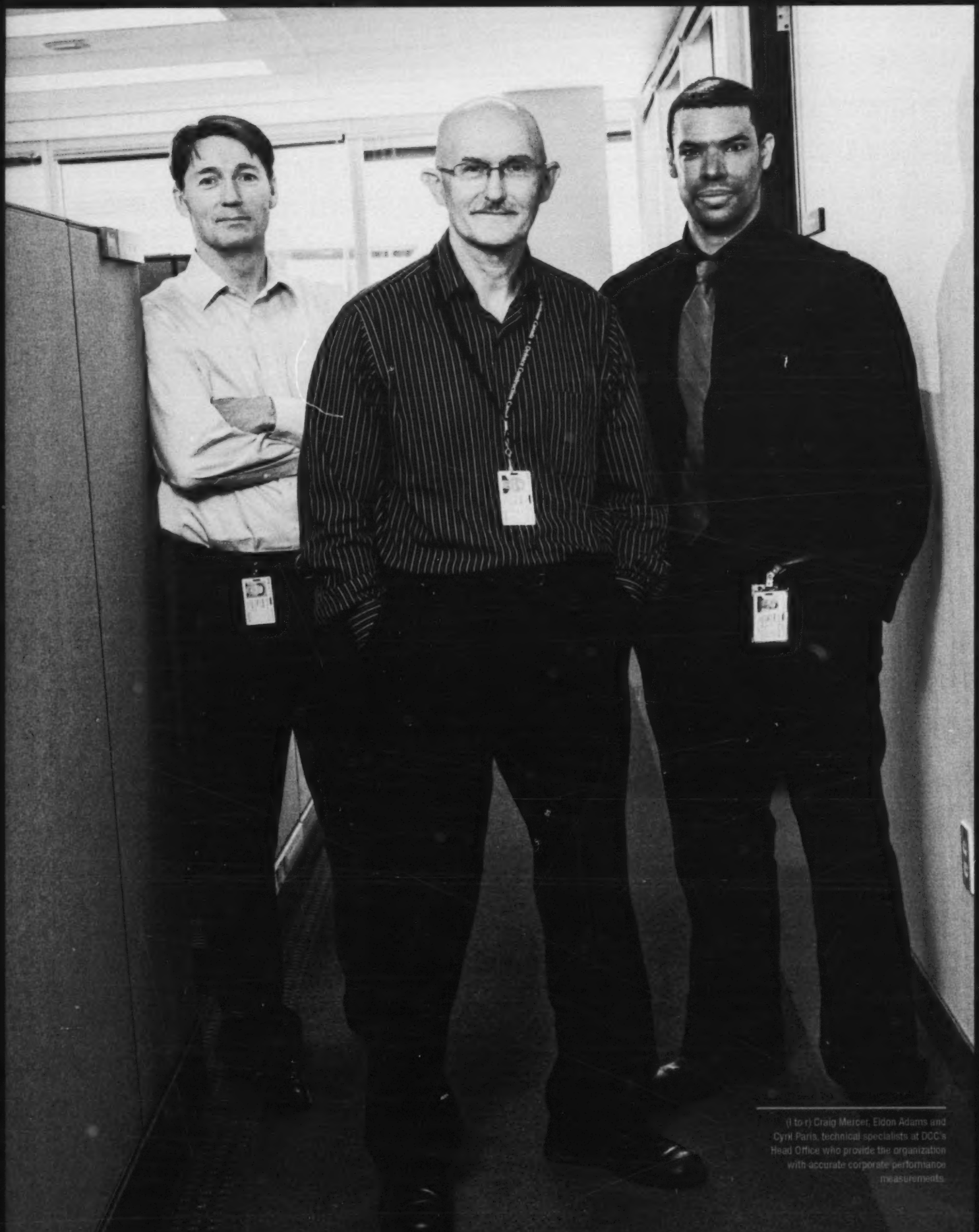
DCC'S WORK OF IMPROVING NEVER STOPS. THE ORGANIZATION AND ITS PEOPLE CONTINUOUSLY STRIVE TO ASK THE QUESTIONS: IS DCC PERFORMING WELL, IS THE ORGANIZATION COST-EFFICIENT, AND IS IT GENERATING VALUE FOR CANADIANS? THE ANSWERS CAN BE FOUND IN DCC'S RESULTS-ORIENTED PERFORMANCE MEASUREMENTS.

DCC's unique structure has made it difficult to compare its performance directly against the industry, so DCC is working on making current Key Performance Indicators (KPIs) more meaningful, and improving data collection. This has contributed to a benchmarking system in which comparisons can accurately be made between DCC and other service delivery options, to ensure DCC is delivering comparable or better value for money, and has led to an improved enterprise reporting system.

Performance is measured at both the corporate plan level and at the management plan level. For example, a KPI from the contract service line assesses the time to award a contract from the closing date of the request for proposals. While the target had been 85%, results had been just 55% in recent years. The optimization exercise adjusted the bid evaluation process to make it more efficient. One year later, the KPI rose to 75%, an improvement that shows considerable success at the business management level.

This focus on improvement – in both processes and reporting – has resulted in consistently good audit results, along with an Award of Excellence from the Canadian Institute of Chartered Accountants for the quality of corporate financial reporting two years in a row. This has earned DCC a well-deserved reputation for going above and beyond, in its operations and its results.

These proactive measurement and reporting initiatives have also assisted DCC to meet Government of Canada fiscal restraint measures. To support the Deficit Reduction Action Plan, DCC identified potential savings in corporate services, company-wide initiatives, and salaries and benefits, leading to a commitment to freeze billing rates for three fiscal years starting in 2012–13, and to generate a 5% cost savings on construction services to DND by optimizing service line processes and practices. DCC remains committed to providing ever more cost-effective and higher value-for-money services for DND and for all Canadians.



(l to r) Craig Mercer, Eldon Adams and Cyril Paris, technical specialists at DCC's Head Office who provide the organization with accurate corporate performance measurements.

THE ORGANIZATION

EMPLOYEES

DCC's greatest asset is its people, and its corporate success is built on employee ability and commitment. DCC has a dedicated workforce of professional, technical and administrative people. Other specialists in finance, human resources, information technology, communications and administration support the operations workforce.

During 2012–13, DCC had 1,041 employees based on full-time equivalents (FTEs), an increase of 4% from 998 FTEs in 2011–12. However, in keeping with its operating objectives, DCC continually anticipates and adjusts the size of its workforce in response to the demand for infrastructure services from DND/CAF. Employee headcount declined during the year as the number of employees at fiscal year end was 963 compared to 1,061 in 2011–12—a decrease of 9.2%. DCC experienced 102 job losses during the 2012–13 year due to ongoing workforce adjustments in response to the fluctuation in the DND/CAF program.

DCC has many longstanding employees who have enjoyed exciting careers with the Corporation. Each year, DCC recognizes those employees who have achieved employment milestones. In 2012–13, 70 employees reached five years of service with DCC, 16 employees marked 10 years of service, six employees achieved 15 years of service, four employees marked 20 years of service, one employee reached 25 years of service, three employees marked 30 years of service and two employees reached the milestone of 35 years.

During the year, DCC's internal career development practices helped 112 employees progress in their careers through promotions, reclassifications, transfers, relocations, and acting and temporary assignments. DCC and DND benefit from the transfer of skills among operating locations as employees hone their skills and test themselves. In addition, DCC expands its base of knowledge and experience.

EXECUTIVE MANAGEMENT STRUCTURE

The President and CEO is accountable to the Board of Directors for the overall management and performance of the Corporation. DCC's President reports to the Chair of the Board. The Executive Team—made up of the President and CEO and four vice-presidents (three for operations, one for corporate services)—is located at DCC's Head Office in Ottawa. In addition to their day-to-day interactions, they meet regularly as the Executive Management Group (EMG), supported by the Corporate Secretary, to review strategic, operations and financial matters for the Corporation.

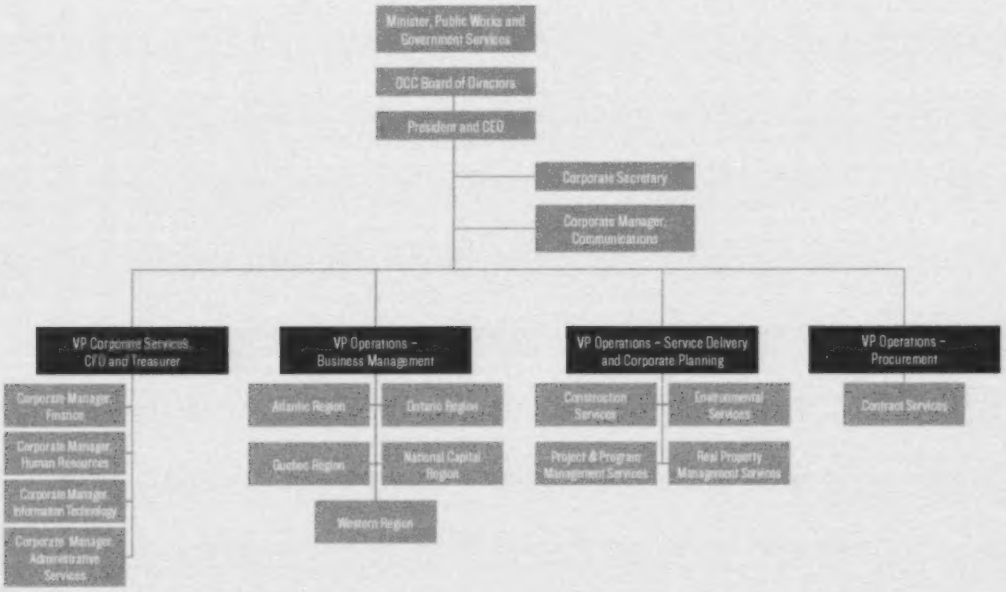
Three vice-presidents, operations are responsible for DCC service delivery, corporate planning, business management and procurement activities. The Vice-President, Operations—Business Management is responsible for the business management of all the regions. The Vice-President, Operations—Service Delivery and Corporate Planning is responsible for service delivery for the Construction Services, Environmental Services, Project and Program Management Services, and Real Property Management Services service lines, as well as corporate planning activities that support the strategic initiatives set out in DCC's Corporate Plan. This Vice-President also acts as the Corporate Security Officer.

The position of Vice-President, Operations—Procurement was filled in the first half of 2012–13 and is accountable for the leadership and oversight of the procurement function across the Corporation, as part of the Executive Team. During the third quarter, as part of the transformation of the delivery of contract services, the contracting activities carried out by the Head Office contracting group and the National Capital Region were amalgamated into one group. As part of the restructuring, the number of contract services positions was reduced.

The Vice-President, Corporate Services is also the Chief Financial Officer and Treasurer, and is responsible for DCC's Corporate Services Division, including human resources, finance, information technology and administrative services.

Regional directors manage activities in the Western, Ontario, National Capital, Quebec and Atlantic regions through regional offices located in Edmonton, Kingston, Ottawa, Montréal and Halifax, respectively.

The Corporate Secretary is responsible for governance-related matters; ensures that DCC complies with all relevant legislation, regulations and government policies; supports the Board of Directors; and communicates with the Corporation's stakeholders.



CORPORATE SERVICES

To help DCC deliver services, the Corporate Services Division at the Corporation's Head Office in Ottawa provides support services to the entire organization and contract financial administration services to the client. These services include human resources, financial and accounting, information technology, and administrative support services.

The Corporate Services Division comprises a strong and dedicated team of employees, including financial experts, human resources practitioners and IT professionals, who are responsible for the overall management of the organization. Collectively, they have met the ever-increasing challenge of building and maintaining adequate infrastructure to handle the demand for support services in response to growth in recent years. In addition, the group maintains business and operational programs, policies and practices to create an effective internal control system that safeguards corporate assets, while supporting employees and service delivery.

NATIONAL AWARDS 2013

Each year, DCC proudly recognizes the outstanding achievements of its employees and the contributions they make to the success of the Corporation. By honouring these individuals and teams, DCC highlights the innovative spirit and dedication of its most valuable resource—its people. These achievements are celebrated annually during the national awards ceremony held in Ottawa. The following were the recipients of the 2013 national awards.

James Paul (left) with the 2013 National Awards Winners in Ottawa, May 2013.

Janette Brodeur, Site Manager in the National Capital Region received the President's Award. This award is presented annually to the employee who has consistently demonstrated outstanding service to the Corporation.

The Service Development Award recognizes an employee or group of employees whose actions best contribute to the development or promotion of client services and the service delivery team. This year, the St. John's Site Office Team in the Atlantic Region received the award. Team members included Jeff Hopkins, Mike Brown and Gerard Walsh.

DCC presents a Customer Satisfaction Award to employees who consistently provide exemplary customer service. In 2010, this award was altered to include two presentations—individual and team awards—based on the increased number and strength of the nominations. The range of nominations is a true testament to DCC's commitment to its Client-Partners, and to the importance DCC places on meeting or exceeding client expectations. In 2012–13, DCC was privileged to present this award to the following employees:

- Brian Fraser, Major Project Leader, from Victoria, B.C.; and
- the Trenton Social Committee from Trenton, whose members include Clive Batchasingh, Katherine Copeland, Anne Fetter, Joel Fisher, Dan Heslinga, Mandy Hyatt, Kieran Lightfoot and Sharon Trebinskie.

Joseph Newton, Coordinator, Project Support at 8 Wing Trenton, received the Innovation Award for delivering innovative, value-added solutions to DND.

The Robert Graham Memorial Award recognizes an employee who makes a special contribution to the improvement of workplace safety or environmental protection. Sophie Lalancette, Coordinator, Health and Safety, was the 2013 recipient of this award.

FRIENDS OF DCC AWARD

John Gamble (right), President, ACEC accepts the Friends of DCC Award from James Paul, DCC President and CEO

During the national awards ceremony, DCC President and CEO James Paul presented the Friends of DCC Award to John Gamble, President of the Association of Consulting Engineering Companies Canada (ACEC), and a leading expert and advocate on industry issues across Canada and internationally. Mr. Gamble was honoured for promoting participation in DCC industry consultations to optimize processes used in procuring professional services. As well, Mr. Gamble has been an ongoing promoter of DCC's new approaches to evaluating bids and can be counted on to provide a broad perspective of the industry.

CORPORATE GOVERNANCE

BOARD STEWARDSHIP

Robert Pierrot, Chair of the Board of Directors

DCC reports to Parliament through the Minister of Public Works and Government Services (the Minister). *The Financial Administration Act* (FAA) states that DCC's Board of Directors (the Board) is responsible for the management of the business, activities and other affairs of the Corporation. DCC's bylaws set out the framework for the operation and management of the Corporation, and the Charter of the Board of Directors outlines the particular areas of responsibility. The Charter is available on DCC's website at www.dcc-cdc.gc.ca.

In January 2013, the Chair of DCC's Board received the statement of priorities and accountabilities, also known as a letter of expectations, from Public Works and Government Services Minister Rona Ambrose. This letter provides key guidance and states the Government of Canada's expectations of DCC. The Corporation is using it to help ensure DCC fulfills its mandate. Elements of this document have been incorporated into DCC's 2013–14 to 2017–18 Corporate Plan, as well as this Annual Report.

To assist the Board in its responsibilities, the Board relies on two committees: an Audit Committee and a Governance and Human Resources Committee. These committees have separate and distinct responsibilities. These are outlined in the committees' charters, which are available on DCC's website at www.dcc-cdc.gc.ca. Details of the activities of each committee in 2012–13 are outlined later in this Annual Report.

In addition to the FAA, other key pieces of legislation to which DCC is subject include the *Public Servants Disclosure Protection Act*, *Access to Information Act* and *Privacy Act*. DCC also receives policy and guidance on various matters from Treasury Board of Canada, Secretariat (TBS).

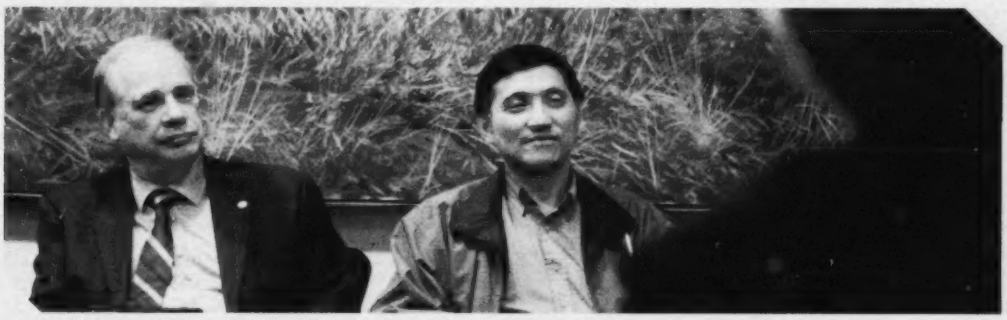
STRATEGIC PLANNING

Board and committee meetings are scheduled to maximize the Board's involvement in DCC's strategic planning process. DCC's annual strategic planning process began in September 2012, when the Board met to discuss initial input into the Corporation's strategic plan, such as key priorities of the Government of Canada and the

ways DCC's strategic objectives relate to these priorities. DCC executive management used the input from these discussions to inform DCC's strategic planning session, which was held in mid-September, and to draft DCC's Corporate Plan. A member of the Board participated in the strategic planning session and shared the Board's point of view on many important issues. Other invited participants at the strategic planning session included DCC stakeholder representatives including the DND Assistant Deputy Minister (Infrastructure and Environment), the PWGSC Assistant Deputy Minister (Real Property) and the president of the Canadian Construction Association.

Also at the strategic planning session, DCC's senior management team reviewed and assessed DCC's progress on the initiatives from previous corporate plans. The group also analyzed the results of an environmental scan that uncovered a variety of issues and trends relevant to DCC's operations. The draft 2013–14 to 2017–18 Corporate Plan (draft Plan) incorporated this input and set out the new key initiatives for the Corporation, as well as related performance measures. After reviewing and commenting on the draft Plan, the Board approved it, along with the annual operating and capital budgets, pending minor amendments, at a meeting in early December 2012.

COMMUNICATION WITH GOVERNMENT, OTHER STAKEHOLDERS AND THE PUBLIC



Michael Blanchet (left) and Eric Lee of the Canadian Construction Association

DCC held its 2012–13 Annual Public Meeting on June 6, 2012. The notice of this meeting was posted on DCC's website 30 days before it took place. As it does every year, DCC sent written invitations to the heads of industry associations who, in turn, passed along the details of the Annual Public Meeting to their membership. DCC's Client-Partners were also invited to attend this meeting, as were DCC's employees. Along with the Chair of DCC's Board of Directors, two board members and DCC's President and CEO were present to answer questions.

At this year's Annual Public Meeting, DCC outlined its financial results, provided information on each of its five service lines, noted changes to procurement practices and identified various issues of concern to industry stakeholders. It also noted that DCC adds value to the Government of Canada through its understanding of the industry, its integrated service delivery model, its knowledge of the Client-Partners' needs and the goals it shares with the Government of Canada: namely, getting the job done quickly, accurately and cost effectively. Also of interest were DCC's cost containment measures and initiatives to support the government's Deficit Reduction Action Plan and fiscal restraint.

Regarding DCC's people, it was noted that 80% of DCC's staff are highly trained in engineering, technical and scientific fields; that DCC is committed to diversity and equal opportunity; and that DCC invests in the occupational health and safety of all employees, and sets standards for values and ethics through the Corporation's Code of Business Conduct.

A summary of the proceedings of this meeting may be found on DCC's website at www.dcc-cdc.gc.ca.

As appropriate, the Chair of the Board communicates with the Minister and reports any issues raised to the board members. The Board also receives regular reports on the stakeholder engagement and relationship management activities of DCC's President, as well as of each member of DCC's Executive Management Group.

WORKING RELATIONSHIP BETWEEN THE BOARD AND MANAGEMENT

Shirley McClellan, DCC Board Member

Board meetings are held in Ottawa and also in DCC's regional offices across Canada (Atlantic, Quebec, Ontario and Western). The Board encourages DCC's executive management to participate in board meetings, when it is fiscally responsible to do so. Due to the current period of economic restraint, it was not appropriate to have the entire executive team incur travel expenses to attend meetings held outside of Ottawa, so only specific representatives of DCC's Executive Management Group were invited to key board meetings in 2012–13.

Board meetings held in DCC's regional and site offices give DCC employees an opportunity to meet board members and to better understand DCC's corporate governance process. In conjunction with formal meetings, regional directors, or other DCC staff, give presentations to board members on such topics as DCC's activities, the way DCC is responding to the needs of DND/CAF, and key concerns facing DCC in their region. In 2012–13, board meetings were held at CFS St. John's (September 2012) and CFB Kingston (February 2013).

BOARD INDEPENDENCE

DCC's Board is made up of seven members, all of whom are independent of DCC management, except for DCC's President and CEO. At fiscal year end, there was one vacancy. As permitted by the FAA, two board members continued to serve beyond the end of their term. The Board functions independently of DCC management, which is a fundamental principle of good governance. The Chair of the Board ensures the effective functioning of the Board as it carries out its responsibilities and duties.

The roles of the Chair of the Board and of the President and CEO are separate, and no employees or corporate officers of DCC serve on DCC's Board. The Minister appoints board members, with the approval of the Governor in Council. Board members may hold office for four years, after which time they may continue in office until a successor is appointed, should they wish to do so. The Governor in Council appoints the Chair of the Board, as well as the President and CEO, for such terms as the Governor in Council considers appropriate.

The Board meets at least quarterly and, to keep expenses to a minimum, committee meetings are scheduled around board meetings. Private sessions are held at each board and committee meeting so that members of the Board may meet as a group without DCC management being present. The Board also meets regularly with the Office of the Auditor General (OAG) and with DCC's internal auditors, Interis Consulting Inc. At the start of its 2012–13 annual audit, the OAG introduced the new members of the audit team to the Board and Audit Committee.

EVALUATING THE PERFORMANCE OF THE PRESIDENT AND CEO

James Paul, DCC President and CEO

The President and CEO's performance evaluation is directly linked to DCC's overall corporate performance. For the 2012–13 performance period, and further to the expectation that DCC adhere to the spirit and intent of the government's strategic and operating review, also referred to as the Deficit Reduction Action Plan (DRAP), the Privy Council Office (PCO) clarified the application of a new section of its performance agreement and evaluation form for corporate commitments. Given the importance of the DRAP, in preparation for this new PCO requirement, DCC's Board of Directors remained particularly involved in monitoring and evaluating DCC's performance in 2012–13. The Board reviewed and approved the annual five-year Corporate Plan, and were provided with regular reports from the President on the status of the implementation of corporate initiatives.

The Board used the PCO's revised performance agreement and evaluation form as the basis for the President and CEO's 2012–13 performance review and evaluation, as well as for the Board's subsequent rating recommendations, including the corporate commitment requested by the PCO. As part of PCO's process, the Chair consulted the Minister and board members and ensured that the 2012–13 performance agreement reflected the shareholder's views. In addition, he submitted the final version of the agreement to the Minister, as required by PCO. Copies of this document were also sent to the Deputy Minister of Public Works and Government Services, and to the Deputy Secretary to the Cabinet (Senior Personnel and Public Service Renewal) PCO, also as per PCO guidance.

EVALUATING BOARD EFFECTIVENESS

Pursuant to PCO guidelines, DCC uses a Board of Director's Competency Profile (Profile) to help identify and clarify the roles and responsibilities of the Board and its committees; to identify the core attributes, competencies and experience that are expected of members of DCC's Board; and to define the optimal mix of specific skills, knowledge and experience needed for the Board to function effectively. The key roles and responsibilities of members of DCC's Board include governance, strategic planning, risk assessment and management, internal controls, performance management and evaluation, and management continuity.

PCO wants organizations to use such a Profile when appointing board members to ensure members collectively have an appropriate mix of skills and experience. Currently, DCC's board members demonstrate a good balance of public and private sector experience, and have knowledge of some fields relevant to the Corporation's business, such as engineering, law, finance and public administration. There is also gender equity, with four male and two female board members. At March 31, 2013, there was one vacancy on DCC's Board.

To assess and ensure continued effectiveness, all board members complete an annual board assessment questionnaire, which also evaluates the performance of committees and individual board members. The board and committee charters are used as guides in the assessment process. The Board also uses guidance from TBS to ensure consistency. The assessment process gives board members an opportunity to examine how the Board is functioning and to suggest improvements. The process focuses on board and committee performance and it provides board members with the opportunity to comment on the performance of the Chair of the Board and the chairs of the committees. They also evaluate their own contributions as a self-development tool.

The 2012 board assessment process took place between December 2012 and February 2013. DCC's Corporate Secretary compiled the results and prepared an analysis report, which ensured comments could not be attributed to individual members. The Chair of the Governance and Human Resources Committee reviewed the report, then the committee's members reviewed it at their meeting in late February 2013. The full Board reviewed and discussed it at a board meeting at the end of February 2013. The Minister was then informed of the results of the analysis, as per TBS guidance.

ORIENTATION AND ONGOING TRAINING FOR BOARD MEMBERS

(L to R) Alison Lawford, Diane Hendsbee and Kim Matheson

It is important that all members of DCC's Board of Directors understand how DCC functions, as well as the role the Board plays in the management of the Corporation.

Upon their appointment, new board members participate in DCC's initial full-day intensive orientation program, as well as supplemental information sessions, as they wish. Continuing education opportunities for all board members are available throughout the year, especially when new requirements are established for the Corporation, such as the new International Financial Reporting Standards (IFRS). At board meetings, members receive regular briefings on DCC's programs and services. Board members may request information on specific issues at any time, and DCC personnel may also bring matters to the Board's attention. DCC is a member of the Institute of Corporate Directors (ICD), and encourages board members to participate in ICD events and to review ICD publications.

When meetings are held outside of Ottawa, board members are given the opportunity to tour project sites and see how DCC's services add value for the Government of Canada. These activities increase board members' knowledge of DCC's activities and help them understand the environment within which DCC operates. During the September 2012 board meeting at CFS St. John's and the February 2013 board meeting at CFB Kingston, board members saw projects in which DCC is participating, and heard from both DCC personnel and DND/CAF personnel about activities at those sites.

GOVERNANCE APPROACH FOR DCC

Anton Lefort, DCC Corporate Secretary

The Board of Directors has ultimate responsibility for the governance of DCC. The main ways in which the Board carries out this role are by approving the strategic direction of the Corporation, as outlined in the Corporate Plan; ensuring that the principal operational and reputational risks associated with DCC's business have been identified and that appropriate systems are in place to manage them, including a corporate risk management framework; and ensuring that information systems and management practices meet DCC's needs and foster confidence in the integrity of corporate information and reports.

The Board ensures that the Corporation is well placed to achieve its goals by overseeing and participating in the strategic planning process, and by providing input and guidance to DCC on the Corporate Plan. The Board must also ensure that DCC management considers all public policy objectives, as well as relevant private sector business practices and trends, in managing the Corporation's operations. DCC also seeks input from industry on best practices at every opportunity, including at its Annual Public Meeting, and discusses them in DCC's Corporate Plans and Annual Reports.

In 2012–13, DCC finalized the review and revision of its risk management process and the Board of Directors approved a new Risk Management Framework.

INTEGRITY AND ETHICAL BUSINESS CONDUCT

DCC's Code of Business Conduct (the Code) outlines expectations for all DCC employees. The key areas covered in the Code are standards of conduct and conflicts of interest; as part of those topics, the Code covers ethical practices, and compliance with legislation as well as adherence to DCC policies and relevant TBS policies. It expressly notes the *Public Servants Disclosure Protection Act* and the procedures for disclosing wrongdoing. Public servants must perform their duties and arrange their private affairs so that public confidence and trust in the integrity, objectivity and impartiality of government are preserved and enhanced. DCC's Board monitors compliance with the Code through regular reports to the Governance and Human Resources Committee. This committee also tracks trends and best practices related to business and employee conduct.

Each year, DCC personnel are required to review their obligations under DCC's Code and to reply to an annual electronic reminder of their responsibilities. This electronic system ensures that DCC keeps accurate records of responses and that there is appropriate follow-up. New employees must pass an online test on DCC's Code shortly after they are hired. The President reports to the Board regarding Code compliance matters as they arise and provides an annual update as well. In this way, the Board ensures that DCC maintains its good practices regarding programs and policies related to values and ethics. In 2012–13, 100% of DCC personnel responded to the annual request for review and all new hires completed the required test.

Furthermore, DCC treats the integrity of the procurement process seriously. Accordingly, the Corporation complies fully with Government of Canada contracting regulations that ensure a secure, efficient and fair process for procuring and managing DND infrastructure projects. During the third quarter of 2012–13, DCC modified its Procurement Code of Conduct (PCC) and its contract documents to ensure greater transparency, greater accountability and the highest standards of ethical conduct in DCC's procurement of goods and services.

AUDIT

In the foreground, DCC's Vice-President and CFO, Angela Ortiz

As stipulated in the FAA, the Office of the Auditor General (OAG) is the auditor for DCC. In addition to regular annual audits of the Corporation's financial statements, the OAG is obligated by the FAA to carry out a special examination of DCC at least once every 10 years. DCC's last special examination took place in 2008.

As required in the FAA, DCC maintains an internal audit function and Interis Consulting Inc. currently provides this service to DCC. The Board receives regular reports on internal audits, including details on the implementation of recommendations. The Audit Committee section of this report provides further information on audit activities.

SUCCESSION

Chantal Tessier (left) with Stéphanie Izard, Human Resources Advisor

The Board reviews the succession plan for DCC's executive management to ensure DCC can identify, attract and retain people with the appropriate skills and knowledge.

BOARD OF DIRECTORS

Two committees assist the Board in meeting its accountabilities: the Audit Committee, and the Governance and Human Resources Committee. Board members serve on these committees, as required. The following sections contain information on the charter of each committee, as well as on the committees' key activities in 2012–13.

AUDIT COMMITTEE

Chair: Kris Matthews. Members: Shirley McClellan and Marc Ouellet. The Committee met four times in 2012–13.

The key functions of the Audit Committee are to review the financial statements included in DCC's Annual Report and the annual auditor's report, and to advise the Board with respect to them; to oversee all internal audits of DCC; and to perform other functions assigned to it by the Board, under the bylaws of the Corporation or under the Audit Committee Charter. The Audit Committee also helps the Board oversee DCC's annual financial statements filing and reporting requirements, as well as internal controls, financial accounting principles and policies, internal and external audit processes, and compliance programs.

The Audit Committee is also responsible for overseeing all audits of DCC, including financial statement, compliance, and operational audits, as well as all attestation and assurance services.

All Audit Committee members are independent of management, as per FAA requirements. As per the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*, the Chair of this committee is a financial expert who holds a recognized accounting designation, and members are financially literate.

The Audit Committee meets regularly *in camera* with committee members only, as well as with representatives from the OAG, and from Interis Consulting Inc.

KEY ACTIVITIES

Internal auditors: The Committee reviewed and approved proposed internal audits, pursuant to the approved audit plan. The Committee also reviewed the results of all audits conducted during the reporting period, as well as the status of the follow-up activities arising out of recommendations from previous audits.

OAG: The Committee reviewed the OAG's annual audit plan in preparation for DCC's annual audit.

Audit Committee Charter: The Committee reviewed its charter to ensure its continued alignment with the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*, as well as best practices in this regard. It also regularly reviewed and revised its work plan.

International Financial Reporting Standards: The Committee continued to oversee DCC's implementation of appropriate new standards.

FAA requirement for quarterly financial reporting and the TBS Standard on Quarterly Financial Reports for Crown Corporations: The Committee continued to receive regular reports on DCC's compliance with this requirement.

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

Chair: Robert Presser (Acting). Members: Marc Ouellet and James Paul (*ex officio*). The Committee met three times in 2012–13.

The key function of the Governance and Human Resources Committee is to help DCC develop the Corporation's approach to corporate governance, a task that includes evaluating DCC's practices to ensure they are in line with current best practices in corporate governance, as well as with TBS guidance. The Committee also oversees the annual board assessment process, which includes questions related to committees as well as to individual board members.

In relation to human resources matters, the Committee ensures that DCC's core human resources policies are sound and that the appropriate related processes are in place. It also oversees the performance management process for the President and CEO, as set out by the Privy Council Office, as well as the annual performance

assessments of members of DCC's Executive Team, and reviews and recommends the appointment and reappointment of corporate officers.

The Committee also participates in the nomination and appointment process for Order in Council appointments, and ensures that the Board Competency Profile remains relevant and captures the appropriate requirements.

KEY ACTIVITIES

Governance

Board and committee membership: The Committee reviewed the succession planning requirements, including the need to appoint at least one new board member, as well as the potential reappointment of four board members to ensure appropriate succession planning.

Board assessment: The Committee oversaw the process for the annual board assessment and individual director questionnaire, including the addition of appropriate questions; ensured that a plan was in place to implement recommendations arising out of the assessment; and reported on the results to the Minister of Public Works and Government Services, as per TBS guidelines.

Human Resources

DCC's human resources policies: The Committee was kept abreast of changes made to DCC's human resources policies, particularly of those policies which were introduced or amended as a result of DCC's implementation of fiscal restraint measures.

Performance management program: The Committee assessed the President and CEO's performance, using PCO's revised performance agreement and evaluation form and new compensation regime. It also recommended the appointment and reappointment of corporate officers.

Nominations

Director Profile: The Committee reviewed the Board of Director's Competency Profile to ensure it still appropriately reflected the needs of the Board of Directors.

ATTENDANCE AT BOARD OF DIRECTORS MEETINGS AND COMMITTEE MEETINGS

APRIL 1, 2012, TO MARCH 31, 2013

	BOARD MEETINGS	AUDIT COMMITTEE	GOVERNANCE AND HUMAN RESOURCES COMMITTEE
PRESSER, ROBERT	5/5		3/3
CATAFORD, PAUL	5/5		
MATTHEWS, KRIS	5/5	4/4	
MCCLELLAN, SHIRLEY	4/5	4/4	
OUELLET, MARC	5/5	4/4	3/3
PAUL, JAMES	5/5		3/3

Regarding committee meetings, this chart notes attendance of committee members only, not that of board members attending as observers.

BOARD COMPENSATION

The Privy Council Office's document, *Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations*, dated October 2000, sets out the guidance for retainer and per diem amounts for Crown corporation board members. In the Privy Council's February 2011 document, *Performance Management Program Guidelines for Chief Executive Officers of Crown Corporations*, DCC is listed in Group 3. The compensation for board members is set by Order in Council and there is a blanket Order in Council for DCC board members.

	ANNUAL RETAINER	PER DIEM
PRESSER, ROBERT	$7,500	$300
CATAFORD, PAUL	$3,800	$300
MATTHEWS, KRIS	$3,800	$300
MCCLELLAN, SHIRLEY	$3,800	$300
OUELLET, MARC	$3,800	$300

BOARD OF DIRECTORS

ROBERT PRESSER

CHAIR OF THE BOARD

As Vice-President of Acme Engineering Products Ltd. in Montreal, Mr. Presser has extensive experience in corporate governance, as well as in mergers and acquisitions, with large Canadian corporations.

PAUL CATAFORD

Mr. Cataford is President and CEO of Zephyr Sleep Technologies Inc. He serves as a director on the boards of a number of public and private companies, and has held several senior management positions in various financial and investment firms.

KRIS MATTHEWS

A Certified Management Accountant and a business consultant, Ms. Matthews is the Managing Partner of the Matthews Group, LLP, in Calgary, and has served on the boards of directors of numerous private sector organizations.

SHIRLEY MCCLELLAN

Appointed the 12th Chancellor of the University of Lethbridge in March 2011, Ms. McClellan is also the Chair of the Board of Horse Racing Alberta and held numerous senior cabinet positions as a member of the Alberta legislature from 1987 to 2007.

MARC OUELLET

After retiring from the Royal Canadian Air Force after a 32-year career, during which he held several command appointments, Mr. Ouellet is now an aerospace and security consultant with CIRRUS Research Associates Inc.

JAMES PAUL

Mr. Paul has over 30 years of business experience with a variety of international companies. He has a Law degree from the University of Ottawa. Prior to his appointment with DCC, he served as Chair of the Canada Science and Technology Museum Corporation's Board of Trustees.

EXECUTIVE TEAM

JAMES PAUL, LLB

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Paul was appointed to the position of President and Chief Executive Officer in September 2009. His career has spanned over 30 years and includes senior management roles in large Canadian technology firms. Before his appointment to DCC, Mr. Paul served as President of a Canadian technology company, and as Chair of the Canada Science and Technology Museum Corporation. He holds a Law degree from the University of Ottawa.

RANDY MCGEE, P.ENG., GSC

VICE-PRESIDENT, OPERATIONS – BUSINESS MANAGEMENT

Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector. He has extensive experience in managing large construction, consultant and design-build projects. Mr. McGee holds a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba and is a Canadian Construction Association Gold Seal Certified project manager.

DANIEL BENJAMIN, P.ENG., ING.

VICE-PRESIDENT, OPERATIONS – SERVICE DELIVERY AND CORPORATE PLANNING

Mr. Benjamin joined DCC in September 2011 after a 35-year career with the Canadian Armed Forces (CAF). He attained the position of Chief Military Engineer for the CAF and Chief of Staff (Infrastructure and Environment). He was involved in the design and construction of infrastructure, and in project, program and facility management of all military facilities in Canada and abroad. Mr. Benjamin retired from the military at the rank of Major-General. He holds a Master of Engineering degree from the Royal Military College.

MÉLINDA NYCHOLAT, P.ENG.

VICE-PRESIDENT, OPERATIONS – PROCUREMENT

Ms. Nycholat joined DCC in 1988 as a Junior Engineer in Gagetown and has held various positions in both the Western and Atlantic regions. She holds a Bachelor of Civil Engineering degree from l'Université Laval. Ms. Nycholat sits on the Board of Directors of the Canadian Public Procurement Council, the Treasury Board Advisory Committee for Construction Contracts, the Canadian Construction Documents Committee, and on the Institute for BIM in Canada.

ANGELO OTTONI, CPA, CA

VICE-PRESIDENT, CORPORATE SERVICES, CHIEF FINANCIAL OFFICER AND TREASURER

Mr. Ottoni joined DCC in 2001 after working nine years in the technology industry and 15 years with a major international accounting firm. He earned a Bachelor of Commerce degree from Concordia University, as well as a Public Accountancy diploma from McGill University. Mr. Ottoni received his Chartered Accountant designation in 1978.

SENIOR MANAGEMENT TEAM

JOHN GRAHAM, P.ENG., PMP

DIRECTOR, ONTARIO REGION

Mr. Graham graduated from Lakehead University in 1988 with a Bachelor of Engineering (Civil) degree. He joined DCC as a Junior Engineer in the Kingston office. In 1998, he attained his designation as a Project Management Professional, and the following year he became the Area Engineer for Ontario Region. Mr. Graham was appointed Director, Ontario Region, in 2009.

STEPHEN KARPYSHIN, P.ENG.

DIRECTOR, WESTERN REGION

Mr. Karpyshin joined DCC in 1988 and has worked on a wide range of projects. A graduate of the University of Manitoba in Physics and Civil Engineering, he is a member of the Association of Professional Engineers and Geoscientists (Manitoba), the Association of Professional Engineers, Geologists, and Geophysicists of Alberta and the Alberta Federal Council.

GRANT SAYERS, CET

DIRECTOR, QUEBEC REGION

Mr. Sayers was promoted to the role of Director, Quebec Region, in 2012. He joined DCC in 2003 as a Contract Coordinator at CFB Suffield and later served as Operations Manager in Comox and Regional Service Line Manager for Real Property in Edmonton. He is a Certified Engineering Technologist with a mechanical background.

GEORGE THEOHAROPOULOS, P.ENG.

DIRECTOR, ATLANTIC REGION

Mr. Theoharopoulos became Director, Atlantic Region, in July 2011. He joined DCC in 2004, following 14 years in the public and private sectors, and has held a variety of positions, including Manager of Environmental Services and Manager of Business Operations in the Atlantic Region. He holds an Engineering degree from the Technical University of Nova Scotia.

ROSS WELSMAN, P.ENG.

DIRECTOR, NATIONAL CAPITAL REGION

Originally with DCC in the 1980s, Mr. Welsman rejoined DCC in 2003 and was appointed Director, Atlantic Region, in 2006. He transferred to Ottawa to assume the role of Director, National Capital Region. Mr. Welsman earned a Bachelor of Science degree and an Engineering (Civil) degree from Memorial University of Newfoundland.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.0 CORPORATE PROFILE

1.1 PROFILE

Created in 1951, Defence Construction Canada (DCC) is a Crown corporation that provides a wide variety of property-related services to support the defence of Canada. The prime focus and beneficiaries of DCC's services are the Department of National Defence (DND) and Canadian Armed Forces (CAF) operations, both domestic and overseas. DCC is accountable to Parliament through the Minister of Public Works and Government Services.

Over the years, DCC's extensive construction expertise has been instrumental in the construction of projects that have shaped the Canadian economic and military landscape, and fulfilled Canada's international obligations. Examples of such projects include the Distant Early Warning (DEW) Line across the Arctic, the Northern Ontario section of the Trans-Canada Pipeline and the Canadian Embassy in Kabul, Afghanistan.

1.2 MISSION, VISION AND VALUES

Given the changes to DCC's business over the past several years, and with the majority of DCC employees having been employed at DCC for less than five years, DCC reviewed and revised its mission, vision and values statements in the third quarter of 2012–13. The statements, as follows, are part of DCC's brand and will be launched and promoted, both internally and externally, in the first half of 2013–14.

MISSION: To provide timely, effective and efficient project delivery and full lifecycle support for infrastructure and environmental assets required for the defence of Canada.

VISION: To be a knowledgeable and innovative leader and employer of choice, valued by the Government of Canada and industry, in the achievement of our mission.

VALUES: DCC's values ensure the Corporation can continue to meet the requirements of DND and the CAF in Canada and abroad. Those values include the following.

DEDICATION: DCC is dedicated to supporting DND's infrastructure and environment requirements. For over 60 years, DCC employees have dependably and diligently carried out that mission.

COLLABORATION: DCC is committed to developing collaborative relationships with its Client-Partners, industry and employees. Together, we leverage our shared expertise toward our common goals.

COMPETENCE: DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the Client-Partner's needs.

FAIRNESS: DCC deals with its Client-Partners, industry and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common objectives of all parties.

1.3 DCC'S CLIENT-PARTNERS

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group of National Defence headquarters is DCC's principal point of contact for the centrally managed capital construction and environmental programs. As the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their respective facilities, DCC also has significant dealings with their organizations, primarily at the base, wing and station levels. DCC supports CAF operations as requested by the newly formed Canadian Joint Operations Command (CJOC).

Other organizations for which DCC also contracts for—and manages—construction and environmental services include, for example, Communications Security Establishment Canada (CSEC), a stand-alone agency within the Minister of National Defence portfolio; the Canadian Forces Housing Agency; Defence Research and Development Canada; and the Canadian Forces Personnel Support Agency. The Corporation also supports the country's North Atlantic Treaty Organization (NATO) allies with training programs and facilities in Canada.

DCC will respond to requests for support within the scope of its mandate from other government departments and agencies with roles in Canada's changing defence environment.

1.4 CONTRACTORS AND CONSULTANTS

Because DCC works closely with private sector consultants and contractors, it is vital that the Corporation stay abreast of trends in the construction industry. In addition to maintaining formal exchanges with the Canadian Construction Association and its provincial counterparts, DCC employees interact with contractors on job sites every day. These discussions help keep DCC informed of industry developments and provide a useful forum through which the Corporation connects with its industry partners. DCC also maintains relations with other groups, such as the Association of Consulting Engineering Companies—Canada, Architecture Canada, the Canadian Public Procurement Council and the Canadian Design-Build Institute, as well as industry organizations for a variety of infrastructure services.

As outlined in the governance section, DCC treats the integrity of the procurement process seriously. Accordingly, the Corporation complies fully with Government of Canada contracting regulations that ensure a secure, efficient and fair process for procuring and managing DND infrastructure projects. As a result, DCC's

new Procurement Code of Conduct (PCC), launched in the third quarter of 2012–13, sets out expectations for contractor conduct to ensure integrity in defence infrastructure contracts. The new PCC brings together in one concise document the ethical responsibilities of contractors who offer goods and services to the Corporation. It ensures greater transparency, greater accountability and the highest standards of ethical conduct in DCC's procurement of goods and services. Since it came into effect in December 2012, DCC has been working to implement it fully and has been talking to PWGSC about using PWGSC's Integrity Assessment Program database to verify bidders before contracts are awarded. This would efficiently leverage PWGSC resources and avoid duplication of effort by DCC in creating its own database.

2.0 CAPABILITIES TO DELIVER RESULTS

2.1 CORE CHARACTERISTICS

Five characteristics allow DCC to deliver quality service consistently. These have a direct impact on the viability of the Corporation.

FOCUS: DCC has had a single focus on a major client for over 60 years, developing an understanding of the client's needs and preferred approaches. That makes DCC unlike any other organization of its size in either the private or public sector.

SERVICE: Standing between the public and private sectors, DCC knows how both the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

DELIVERY: DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

FLEXIBILITY: DCC manages its staff and administers projects with efficiency and flexibility equal to that of the private sector.

VALUE: DCC has consistently provided cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

2.2 OPERATING STRUCTURE

DCC maintains site offices at all active CAF establishments in Canada and abroad, as required. Its Head Office is located in Ottawa. The Corporation maintains five regional offices (Western, Ontario, National Capital, Quebec and Atlantic), as well as 47 site offices located at CAF bases, wings and area support units. In addition, DCC maintains remote offices in the Arctic, as required for the DEW Line Clean-Up.

3.0 STRATEGIC INITIATIVES

DCC's Corporate Plan is structured into five planning themes—business management, service delivery, people, strategic management and leadership, and corporate governance and stakeholder relationships—that inform the organization's strategic initiatives.

The following is a summary of DCC's progress in 2012–13 on initiatives under these themes.

THEME — BUSINESS MANAGEMENT

OBJECTIVE: TO DEVELOP AND MAINTAIN RESPONSIVE, SUSTAINABLE BUSINESS MANAGEMENT STRUCTURES, TOOLS, TEAMS AND PRACTICES.

INITIATIVE: DCC WILL IMPLEMENT THE ENHANCED CORPORATE ENTERPRISE RESOURCE PLANNING (ERP) SOLUTION.

This is a multi-year initiative and, as planned, work continued throughout fiscal 2012–13, following installation of the new hardware platform, and the review and validation of customized programs. Emerging technical issues associated with integrating the updated software applications caused a delay in the launch of the upgraded system. With the issues successfully addressed, the major upgrade was completed in mid-November. In the last quarter of the fiscal year, the initiative focused on user training and leveraging the ERP system's enhanced capabilities, a task that included implementing the asset management module. Work is continuing in the first quarter of 2013–14 with the implementation of the procurement and expense management modules.

INITIATIVE: DCC WILL REVIEW AND ASSESS ITS INFORMATION SYSTEMS/INFORMATION TECHNOLOGY (IS/IT) STRATEGIC PLAN.

With the advent of technology and the constant evolution of DCC's business environment, the Corporation must take new factors into account in its corporate IS/IT Strategic Plan. The increased demand for and use of electronic collaboration tools, internally and externally, is one example. Corporately, the use of social media is taking on new importance, even as concerns grow about cyber-security and its impact on IT systems. Also, DND has increasing requirements for technology systems and applications to manage its real property and would like support to implement them. The Information Technology Steering Committee (ITSC) considered these factors as it reviewed the existing strategy document. In the second half of 2012–13, the IS/IT Strategic Plan 2013–14 to 2017–18 was completed and formally approved. The plan provides DCC with a strategic view of the next five years and beyond, and considers trends in technology, IT security, operational needs and budgetary requirements.

THEME — SERVICE DELIVERY

OBJECTIVE: TO MEET CLIENT-PARTNER REQUIREMENTS AND TO ACHIEVE VALUE FOR MONEY.

INITIATIVE: DCC WILL CONTINUE TO SEEK AND ACHIEVE AN OPTIMIZATION REVIEW OF ITS PROCESSES AND PRACTICES FOR ALL SERVICE LINES.

At the end of 2011–12, DCC finished its optimization review of the Contract Services (CS) and Construction Services (CSC) service lines. Initiatives that were implemented following the review included further delegation of authorities, decentralized to the site level, the elimination of buildability and bidability reviews for low-value projects, streamlining the process for responding to bidder questions, simplifying the call-up process for

low-risk professional services, and using a low-risk contract management process for all low-risk projects under $1 million. In the first half of 2012–13, senior leaders and service line members turned their attention to reviewing the remaining three service lines. Optimization sessions and workshops took place. There, team members brought forward ideas for efficiencies. A list of action items and conclusions emerged, which DCC developed and implemented in the last half of 2012–13. These ideas included merging or eliminating less efficient processes, and streamlining existing processes and their associated paperwork. The conclusions from the reviews and any resulting products are described in service line bulletins that are distributed when the products are launched. A major product of this initiative will be the updated *Operations Manual*, which will capture these streamlined processes.

INITIATIVE: **DCC WILL CONTINUE TO SEEK OPPORTUNITIES TO HELP MANAGE THE DND/CAF INFRASTRUCTURE AND ENVIRONMENT PORTFOLIO.**

The volume and complexity of defence infrastructure projects have increased over the past five years. DCC continues to enjoy a strong partnership with DND and retains a strong corporate memory for the Infrastructure and Environment Group at DND. The Corporation is committed to helping improve Canada's defence infrastructure delivery and to helping DND manage its infrastructure and environment portfolio. Already, in this fiscal year, DCC supported DND's business modernization project; helped develop building information modelling (BIM) as a key tool for collaborative project delivery; assumed responsibility for delivering many standing offer agreements formerly managed by PWGSC; supported the procurement of facilities maintenance contracts; helped develop improved methods for managing the operations and maintenance of DND facilities; and developed a real property management framework and associated facility management tools in anticipation of any DND need for facilities management service support. Also, in response to DND's requests to use modified design-build contract mechanisms, DCC has developed a central management team in Ottawa and is working with the regions to increase their capability in this area.

INITIATIVE: **DCC WILL APPLY JOINT DCC-DND/CAF PERFORMANCE MEASURES.**

Over the past two years, DCC and DND have done much work to develop a framework and process for joint performance measurement. In the first half of 2012–13, collaboration to implement the Canadian Forces Housing Agency joint evaluation framework continued. The pilot program for this initiative was finished in 2011–12, and a framework was established. During 2012–13 the framework was rolled out at the national level and implementation is planned for the next fiscal year. These joint performance measures will become part of a larger performance measurement framework initiative to be carried out in 2013–14 and beyond.

THEME — PEOPLE

OBJECTIVE: **TO RECRUIT, DEVELOP, SUPPORT AND RETAIN A SKILLED, PROFESSIONAL AND MOTIVATED WORKFORCE.**

INITIATIVE: **DCC WILL CONTINUE TO PROMOTE A CULTURE OF INNOVATION, INCLUDING IMPROVEMENTS TO THE IDEAS AT WORK PROGRAM.**

Building on work from previous years, DCC updated its annual Ideas at Work project plan and communications plan, and engaged a new committee facilitator. In the first half of 2012–13, it launched a new peer-to-peer electronic recognition system to foster engagement and promote a culture of innovation at the national and regional levels. Since the recognition system's launch in July 2012, participation in this voluntary initiative has

exceeded expectations, with more than 71 nominations and comments combined, and 147 employees participating in the recognition board by year end. By the end of the fiscal year, DCC had implemented four ideas nationally and was reviewing several others.

The key to the success of this multi-year initiative is to maintain momentum in order to influence workplace culture. Initially implemented at the national level, the Ideas at Work program has taken hold at the regional level through regional committees. During fiscal 2012–13, the idea to create a regional quarterly newsletter was developed in Quebec and adopted by all DCC regions. The newsletter promotes innovation within DCC and shares successes regionally. It also helps to create enthusiasm at the site level through site representatives and committees.

The national Ideas at Work Committee also enhanced collaboration with national service line leaders regarding innovation in their service lines. This initiative improved timing with regard to idea submissions, and increased the visibility of the idea development and implementation process.

This initiative remains at the strategic plan level, given its importance as a mechanism for supporting cultural evolution within DCC.

INITIATIVE: DCC WILL IMPLEMENT A COMPETENCY-BASED PERFORMANCE MANAGEMENT PROGRAM, TO FOSTER A PRINCIPLES-BASED DECISION-MAKING CULTURE.

First identified in the 2010–11 Corporate Plan, the competency-based performance management program—which includes leadership development—is unfolding over several years. It focuses on how DCC recruits people, evaluates and manages performance, supports training and development, and identifies candidates for leadership development and critical positions in the organization. Through the use of six core competencies, managers will assess employees' work and consider that work within a comprehensive structure that takes into account the full range of their capabilities in relation to business requirements. Employees will help set job-related goals that align with corporate strategic objectives, and participate in performance appraisals, learning and career development. At the end of fiscal 2011–12, the framework and details of the competency-based performance management system were finalized.

In the first half of fiscal 2012–13, an implementation and communications strategy was developed and approved, and a succession planning and management framework was also developed. Employees were notified of their individual core competencies in preparation for the launch of the new performance management system. In January 2013, the training and communications efforts for this system and the implementation plan were well underway, with webinars, videos and communications tools helping managers and employees adapt to the new process. In the final quarter of fiscal 2012–13, employees began working with their managers on setting their performance objectives and career goals for the coming performance review period.

Work continues into fiscal 2013–14 with the transition to an online performance management tool to help managers and employees manage progress toward identified training and performance goals. The succession planning and management framework will be approved and implemented in the first half of 2013–14.

THEME — STRATEGIC MANAGEMENT AND LEADERSHIP

OBJECTIVE: TO PROVIDE STRONG, ETHICAL, EFFICIENT AND EFFECTIVE STRATEGIC MANAGEMENT AND LEADERSHIP FOR THE CORPORATION.

INITIATIVE: DCC WILL IMPLEMENT A PROCUREMENT CODE OF CONDUCT FOR INDUSTRY.

DCC operates in an accountable, ethical and transparent manner, at all levels of its business. The intent of this Procurement Code of Conduct (PCC) is to enhance public confidence in the Corporation's procurement activities. The PCC clearly states DCC's expectations regarding suppliers' responsibilities during the procurement process and during the course of their work. All suppliers who have bid on or have been awarded contracts must abide by the PCC's obligations, since these obligations form part of the contract.

In the first half of 2012–13, the PCC was finalized and posted on the DCC website in both official languages. In the second half of fiscal 2012–13, it was incorporated into all contracts and officially launched. DCC promoted the PCC to its industry partners, who, in turn, communicated it to their membership bases. Going forward, DCC will partner with PWGSC to carry out a screening of the bidders for compliance with the Code and will take action accordingly.

INITIATIVE: DCC WILL IMPLEMENT RECOMMENDATIONS ARISING OUT OF THE ENTERPRISE RISK MANAGEMENT AUDIT.

DCC has modified its enterprise risk management framework, based on an audit and review initiated due to the significant growth and changes in the Corporation's business over the past few years. DCC implemented the modified framework as part of its strategic planning and business management practices. Regions identify and review potential risks each quarter, then DCC reviews key risks at the corporate level. Risks identified as high are placed on the corporate risk register, as determined by the Executive Management Group. This framework was implemented early in 2012–13. After a full one-year cycle, it has proven to be a valuable tool for sites and levels across the organization. DCC has scheduled risk management refresher sessions to ensure the integrity of the framework application, and additional training modules for DCC employees will be developed in 2013–14. Going forward, employees will routinely consider risk in their day-to-day business and the enterprise risk management framework will remain at the operational level.

THEME — CORPORATE GOVERNANCE AND STAKEHOLDER RELATIONSHIPS

OBJECTIVE: TO BE RECOGNIZED AS COMPETENT AND RESPONSIVE TO GOVERNMENT PRIORITIES, POLICIES AND PRACTICES.

INITIATIVE: DCC WILL CONTINUE TO DEMONSTRATE FISCAL RESTRAINT AS PER GOVERNMENT OF CANADA REQUIREMENTS, INCLUDING BUDGET 2011 AND THE DEFICIT REDUCTION ACTION PLAN (DRAP).

In the 2010 Budget, the Government of Canada announced measures to reduce the rate of growth of its operating expenditures and to improve efficiency, while lowering the rate of growth of the size and operations of the public service. As part of this effort, the government asked departments and Crown corporations funded by parliamentary appropriations to freeze their operating budgets for 2011–12 and 2012–13 at 2010–11 levels. DCC operates on a fee-for-service basis and its spending is largely determined by the demand for its services from its Client-Partners. However, opportunities to constrain certain costs existed and, in keeping with the intent of the 2010 Budget, DCC planned to manage its discretionary spending carefully, with the goal of limiting discretionary expenses for 2011–12 and 2012–13 to 2010–11 levels.

In the 2011 Budget, the Government of Canada introduced the DRAP to save the government money. Following the announcement, the Minister sent her letter of expectations and requested a review in an effort to support the DRAP over three fiscal years: 2012–13, 2013–14 and 2014–15.

DCC identified a number of ways to reduce its indirect operating costs. It committed to improve service delivery processes to reduce the cost of its construction services to DND by 5%. DCC estimated it could save approximately $2.5 million annually—about 7% of its indirect operating costs of $35.4 million for fiscal 2011–12. DCC saved $5.4 million in fiscal 2012–13, or 216% of its target. For more detail on DCC's progress on each initiative it proposed under DRAP, see the table on page 59.

INITIATIVE: DCC WILL SUPPORT DND IN ITS IMPLEMENTATION OF ITS STRATEGIC REVIEW AND THE DRAP.

The outcomes of DND's report on Transformation 2011 and DRAP will have a significant impact on DND/CAF. DCC has the ability to respond to and adapt to DND demands, just as it has done for more than 60 years. DCC remains ready to help DND manage changes and was able to provide support in several ways during the first half of 2012–13. As well as reductions to unexploded explosive ordnance programs, DND announced reductions to or closures of support units or bases in Chilliwack, B.C.; Calgary, Alberta; Moncton, New Brunswick; and North Bay and London, Ontario. DCC worked hand in hand with DND in the latter part of the year to develop master implementation plans to support these closures in an efficient and timely manner. As predicted, various infrastructure- and environment-related programs were reduced, and DCC adjusted its staffing levels accordingly. More importantly, DCC has reduced its costs of construction services to DND by over 4% through greater efficiencies gained by optimizing and better integrating several service lines. The Corporation is also helping DND migrate toward a highly centralized infrastructure- and environment-related service delivery model to improve efficiency and effectiveness through optimization.

4.0 STRATEGIC AND OPERATIONAL PERFORMANCE INDICATORS

4.1 SERVICE DELIVERY

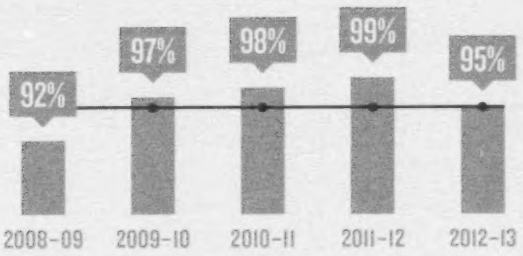
Completing each project or task to the satisfaction of its Client-Partners is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction through a service delivery rating system as one of its key performance indicators. DCC interviews Client-Partner representatives individually each year. Each representative has the opportunity to comment on the service DCC provided on all projects in which he or she was involved.

In 2012–13, DCC conducted 172 service delivery ratings. Rating scores are weighted according to the value of each service level arrangement. Service delivery ratings are based on a scale of one to five. A score of three means DCC met expectations and a score of four or five means DCC surpassed expectations. In 2012–13, DCC met its target with 95% of clients indicating DCC met or exceeded their expectations.

DCC will continue to look for opportunities to further increase the efficiency of the service delivery rating process.

CLIENT SATISFACTION

TARGET: 95%



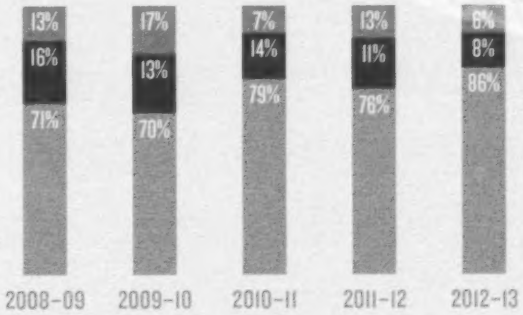
TIMELINESS OF CONSTRUCTION CONTRACT COMPLETION

Timely completion of projects is a key component of client satisfaction. DCC monitors the timeliness of construction contract completion, and works with clients and contractors to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons, and the Corporation takes all necessary action to ensure that the project is completed as quickly as possible, to minimize the impact on DND. In 2012–13, 86% of construction contracts were finished on time, another 8% were completed within 30 days of the expected completion date and 6% were completed thereafter.

TIMELINESS OF CONSTRUCTION CONTRACT COMPLETION

(percentage of jobs completed)

ON TIME
WITHIN AN ADDITIONAL 1–30 DAYS
OVER 30 DAYS



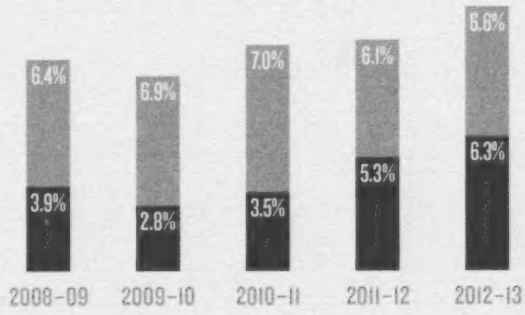
CONSTRUCTION CHANGE ORDER VALUES

The change in total award value for 2012–13 was 12.9%, an increase from the 2011–12 figure of 11.4%. Of the 12.9% change in total award value, 6.6 percentage points related to design changes and 6.3 percentage points related to site condition changes. Although DCC does not set formal targets for this indicator, it tracks this information in order to inform the client and to help facility users manage scheduling risks associated with construction.

CHANGE ORDER VALUES

(percentage of total award value)

ATTRIBUTABLE TO DESIGN CHANGES
ATTRIBUTABLE TO SITE CONDITION CHANGES



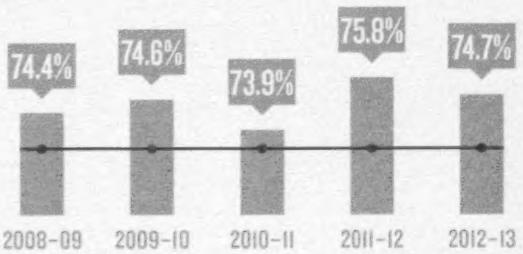
4.2 UTILIZATION RATE

The utilization rate indicates the hours spent directly on service delivery functions that are billable to the client, as opposed to hours spent on administrative functions that are considered overhead support and on compensated leave. It is an important performance indicator for efficiency and effectiveness, and a key financial management tool. DCC's target utilization rate is 70%. In 2012–13, the Corporation achieved an actual utilization rate of 74.7%, a decrease of just over 1 percentage point from last year's rate of 75.8% but well above the targeted rate. The slight decrease was due primarily to higher usage of vacation time by staff and increased time spent on corporate initiatives.

UTILIZATION RATE

(percentage of employee hours spent on billable contract work)

TARGET: 70%

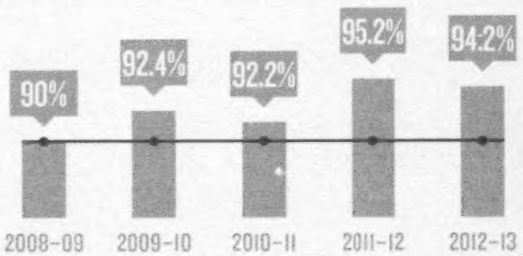


4.3 EMPLOYEE RETENTION RATE

DCC's success depends on its ability to maintain a skilled, professional and motivated workforce to meet business requirements. To that end, it is critical to recruit and retain the types of employees needed to guarantee a high level of client service. It is normal for DCC to experience some staff turnover, due to the seasonal and geographically cyclical nature of its work. In 2012–13, DCC again exceeded its retention rate target of 90% by reaching 94.2%. DCC has met or surpassed its target each year over the past five years—in 2011–12, 2010–11 and 2009–10, it surpassed the target by attaining 95.2%, 92.2% and 92.4%, respectively, and in 2008–09, it met the target of 90%.

RETENTION RATE

TARGET: 90%



4.4 DIRECT PERSONNEL EXPENSE MULTIPLIER

The direct personnel expense multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. These project personnel expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, statutory holidays and professional development time. The target range for this indicator is between 1.40 and 1.50. In 2012–13, the DPEM was 1.37, compared with the previous fiscal year's DPEM of 1.43. The Corporation has been able to reduce the DPEM year over year due to containing revenue as a result of freezing rates while generating sufficient funds to meet its operating needs.

4.5 EMPLOYEE WELLNESS

As an employer, DCC's value is in its people. The organization is strongly committed to creating a workplace environment that encourages its employees to incorporate wellness into their daily routine and promotes work-life balance. DCC is focused on preventive measures and interventions that reduce employees' health risk factors. DCC demonstrates this commitment by providing financial assistance and access to benefits and resources such as lifestyle modification programs, fitness memberships/programs, an employee assistance program, flexible working arrangements and compressed work week.

In 2012–13, DCC reported average sick leave hours of 43 per full-time equivalent (FTE)—well below the national average. Statistics Canada reported for 2011 the average time taken for sick leave for both private and public sectors in Canada of 58.5 hours.

4.6 EMPLOYMENT EQUITY

DCC is committed to maintaining its performance with respect to the government's employment equity objectives. In Human Resources and Skills Development Canada's *Employment Equity Act 2012 Annual Report*, "A" indicates superior performance on all six indicators; "B" indicates good performance, but with persistent problems; "C" indicates average to less-than-average performance; and "D" indicates poor performance. DCC continues to carry out an employment equity awareness campaign to promote employment opportunities and achieve equal opportunity for all workers.

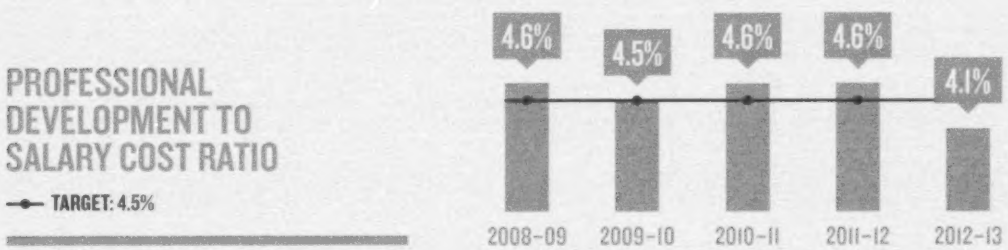
EMPLOYMENT EQUITY RATING

CATEGORY	RESULTS, 2011	RESULTS, 2012*
WOMEN	A	A
ABORIGINAL PEOPLE	A	A
PERSONS WITH DISABILITIES	A	A
VISIBLE MINORITIES	B	C

*Source: *Employment Equity Act 2012 Annual Report* (Ottawa: Human Resources and Skills Development Canada, 2012). This report uses data as at December 31, 2012.

4.7 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

DCC's ability to serve DND is heavily dependent on the skills of its employees, and maintaining a skilled and professional workforce is a key corporate objective. Therefore, employee training and development continues to be a high corporate priority and a key area of investment. DCC's performance indicator for training and development is based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development activities, expressed as a percentage of total salary cost. DCC established an overall corporate target for spending on training and development of 4.5% of salary costs for 2012–13. The Corporation decreased this target by 0.5 percentage points from the prior year's target of 5.0% as part of its deficit reduction action plan. In 2012–13, the actual percentage declined to 4.1% from the 2011–12 result of 4.6%. The 2012–13 ratio of 4.1% was lower than the target ratio, as DCC expended less effort than expected to develop and maintain internal training courses.



4.8 DCC CODE OF BUSINESS CONDUCT RESULTS

As mentioned previously in the Governance section of this Report (page 26), DCC's Code of Business Conduct (the Code) outlines expectations for standards of conduct for all DCC employees. The Code covers ethical practices, and compliance with legislation and DCC policies. In 2012–13, 100% of DCC employees responded to the annual request for review and all new hires completed the required test.

4.9 SUCCESSFUL CONTRACTS

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects over $1 million for significant problems that could potentially jeopardize the tender. At year end, 96.2% of DCC tender calls had resulted in the award of a contract. This figure is over a percentage point greater than the 2011–12 result of 95.1%. This percentage also exceeds the preceding three years' percentages of 95.4%, 93.4% and 95%. The most common reason that a tender does not result in a contract is that the tender price exceeds the approved budget amount.

4.10 LEGAL CLAIMS

DCC's efforts to resolve contract disputes are reflected in the number and value of contract claims before the courts. At March 31, 2013, there were 15 ongoing claims totalling $10.2 million, including one under appeal. These figures compare with 18 ongoing claims with a total value of $13.5 million at March 31, 2012.

In accordance with the memorandum of understanding between DCC and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by DCC. Thus, the financial risk associated with settling these contractual claims does not have any financial impact on DCC. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims.

4.11 TIMELINESS OF SUBMISSIONS REPORTING

DCC is accountable to both government and Parliament through Part X of the *Financial Administration Act* (FAA) that outlines the control and accountability framework for Crown corporations. Accordingly, it is DCC's responsibility to submit its Corporate Plan, including operating budget and capital budget, and Annual Report as regulations dictate. In 2012–13, DCC submitted its 2013–14 Corporate Plan and Corporate Plan Summary to the Minister of Public Works and Government Services on time as per Sections 122 and 125 of the FAA, respectively.

In addition to the FAA, other key pieces of legislation to which DCC is subject include the *Public Servants Disclosure Protection Act*, *Access to Information Act* and *Privacy Act*, *Employment Equity Act*, *Official Languages Act* and *Canadian Multiculturalism Act*. In fiscal year 2012–13, DCC was compliant with all reporting requirements under each of these Acts.

4.12 ACHIEVEMENT OF CORPORATE INITIATIVES

DCC has established five planning themes with corresponding strategic objectives against which the performance of the Corporation and its services are measured:

1. BUSINESS MANAGEMENT – To develop and maintain responsive, sustainable business management structures, tools, teams and practices;
2. SERVICE DELIVERY – To meet Client-Partner requirements and to achieve value for money;
3. PEOPLE – To recruit, develop, support and retain a skilled, professional and motivated workforce;
4. STRATEGIC MANAGEMENT AND LEADERSHIP – To provide strong, ethical, efficient and effective strategic management and leadership for the Corporation; and
5. CORPORATE GOVERNANCE AND STAKEHOLDER RELATIONSHIPS – To be recognized as competent and responsive to government priorities, policies and practices.

Eighteen strategic outcomes, aligned with DCC's business needs, defined the intent of these strategic objectives for the 2012–13 planning period. DCC identified 11 corporate initiatives to help direct DCC's efforts during the year and to contribute to the sustained viability of the Corporation. All initiatives were monitored closely and the details of their progress were outlined in Section 3.0 of this report. DCC can continue to fulfill its mission due to the work completed annually on these strategic corporate initiatives.

5.0 RISK MANAGEMENT

Under the direction of the Board of Directors, senior management established a new comprehensive corporate risk management framework. The new framework is based on the principles of integrated risk management and is written in accordance with the risk management methodology used by DND and many other government organizations.

The new framework ensures that management's direction on risks is clearly communicated, understood and applied throughout DCC; that risk management is integrated into DCC's existing decision-making, planning and corporate governance structures; and that there is a consistent means to effectively apply risk management regularly to corporate and project-related activities.

Sound risk management practices are already ingrained in DCC's corporate culture, and the framework supports better integration with the Corporation's strategic planning process and business management framework. Risk management continues to be practised at various levels across the organization, for both the corporate and operational aspects of DCC's business. Quarterly, business units identify and report potential risks to regional offices. The regions and service lines evaluate and deal with areas of concern, forwarding those considered to have a region-wide impact to the vice-presidents for their review. The Executive Management Group reviews risks that are considered corporate wide and then forwards them to the Board of Directors.

The Executive Management Group is responsible for implementing actions that will mitigate corporate risks, while also promoting awareness of risk management among employees. Staff members are expected to identify risks and deal expediently with issues and problems. Risks will be managed at the lowest level possible; however, when employees identify a high risk, they must report it to their manager immediately, and a mitigation plan will be generated and implemented accordingly.

When necessary, employees ask senior managers for guidance and assistance regarding operational risks. DCC balances risks with the need to provide a high level of timely operational support to DND and the CAF. DCC's risk management approach includes sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

During fiscal 2012–13, DCC fully implemented the new risk management framework and applied it through a full-year management cycle. Training for all DCC managers was completed in the first quarter. In the third quarter, DCC updated the framework to clarify the reporting process and to standardize the responses to corporate risks. The Corporation expects to deliver the risk management training module for all employees in fiscal 2013–14.

5.1 ENVIRONMENTAL RESPONSIBILITIES

To mitigate DCC's impact on the environment, DCC's Board of Directors and Senior Management Group are committed to the principles of sound environmental stewardship. The Corporation's operational policies and procedures are designed to minimize environmental impacts on all work sites and to specify the significance of environmental incidents that employees must report.

Nine environmental incidents arising from contractor activities were reported in 2012–13. No environmental incidents occurred as a result of DCC activities. DCC employees reported all nine incidents in a timely and appropriate manner. Four such reportable environmental incidents occurred in 2011–12 and three incidents occurred in 2010–11, while no incidents were reported in 2009–10 or 2008–09. DCC continues to implement environmental incident reporting criteria that are harmonized with DND's criteria for spill reporting.

5.2 MAINTAINING A SAFE WORK ENVIRONMENT

Occupational health and safety are primary concerns, both in the workplace and on job sites. The Corporation has developed and maintains a strong, agile and effective health and safety program to ensure proper training and reporting, and to provide accessible information and resources to employees. A team of certified professionals and health and safety representatives in DCC offices nationwide manages and supports this program.

In 2012–13, DCC evaluated its entire program, reviewing common practices, policies, education and training. The result was a Corporate Action Plan that contains historical and regional data, including results and corrective actions in each region and site nationwide. This plan provides quick access to program performance data and trends, and ensures the sharing of best practices and lessons learned. As part of the evaluation, DCC also assessed health and safety training delivery to identify ways to use emerging media—such as e-learning portals, social media, forums and blogs—to enhance DCC's health and safety program in a fiscally responsible manner.

The number of lost-time injuries decreased from 13 in 2011–12 to three in 2012–13. These three incidents involved minor injuries but accounted for 19 days of lost time, an increase of six days from the previous year. This was due to the employees' need for a modified work schedule.

6.0 FINANCIAL PERFORMANCE

6.1 REVENUE

SERVICES REVENUE

Services revenue for all service lines combined was $114.5 million in 2012–13, an increase of $2.7 million or approximately 2% from the previous year. The increase related to the overall rise in business volume due to higher client demand for services. There was no revenue increase related to billing rates, which remained unchanged from the previous year.

CONSTRUCTION SERVICES REVENUE

Revenue from Construction Services in 2012–13 represented 49% of total revenue from all service lines and increased by 2% over the previous year. The increase related to higher demand for construction services.

PROJECT AND PROGRAM MANAGEMENT SERVICES REVENUE

Project and Program Management Services revenue increased by 4% in 2012–13, due to higher DND demand for the services in this service line. The cyclical nature of DND's demand for these services has a direct impact on the revenue this service line generates from year to year.

ENVIRONMENTAL SERVICES REVENUE

Environmental Services revenue decreased in 2012–13 by 2% over the previous fiscal year, driven primarily by decreased demand for these services. The cyclical nature of DND's demand for these services has a direct impact on the revenue this service line generates from year to year.

REAL PROPERTY MANAGEMENT SERVICES REVENUE

Real Property Management Services revenue increased by 23% in 2012–13. This increase reflected a marked increase in demand for services related to facility and portfolio management, and the reclassification and consolidation of real property-type contract work from other service lines.

CONTRACT SERVICES REVENUE

Contract Services revenue decreased during 2012–13 by 10% over the previous year. The dollar value of contracts awarded during fiscal 2012–13 and the number of contracts awarded decreased in comparison with the previous fiscal year. The cyclical nature of DND's demand for these services has a direct impact on the revenue this service line generates from year to year.

REVENUE, BY SERVICE LINE (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Construction Services	$ 56,245	$ 54,977	1,268	2%
Project and Program Management Services	24,443	23,449	994	4%
Environmental Services	13,139	13,456	(317)	-2%
Real Property Management Services	10,477	8,542	1,935	23%
Contract Services	10,237	11,382	(1,145)	-10%
	$ 114,541	**$ 111,806**	**2,735**	**2%**

INVESTMENT REVENUE

Investment revenue, which is generated from the Corporation's average cash balance in the bank and from investments, increased in 2012–13 by $103,000 or approximately 21% over the previous fiscal year. This significant increase was due to a combination of factors. The average monthly cash balance during the fiscal year was higher: $25.1 million in 2012–13, compared with $16.9 million in the previous year. The interest rate paid on cash in the bank was 1.2% in 2012–13. In addition, the Corporation invested excess funds of $9.6 million, yielding average returns of 3.8% during 2012–13. In the previous year, similar investments yielded an average return of 3.6%.

INVESTMENT REVENUE (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Investment revenue	$ 598	$ 495	103	21%

6.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries totalled $78.3 million in 2012–13, an increase of $6.9 million or approximately 10% over the previous fiscal year. The 10% increase can be explained by the following: 1) the growth in the number of full-time equivalents (FTEs), due to higher levels of business activity, which accounted for approximately 4 percentage points of the increase; and 2) a combination of salary increases, severance payments related to workforce adjustments and employee salary mix accounted for the remainder. The increase of 4% in FTEs is higher than the increase in revenue of 2% and is due primarily to the billing rate freeze and the decrease in the utilization rate, as explained in section 4.2.

Employee benefits totalled $21.0 million in 2012–13, a decrease of $225,000 or approximately 1% over the previous fiscal year. This decrease was largely related to the decline in employee benefits related to the discontinuation of the retirement allowance and the lower costs related to the employer portion of pension contributions under the *Public Sector Superannuation Act*. These changes contributed to the decrease in employee benefits as a percentage of salary to 27%, a drop of about 3 percentage points over the previous year.

SALARIES AND EMPLOYEE BENEFITS (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Salaries	$ 78,282	$ 71,405	6,877	10%
Employee benefits	20,980	21,205	(225)	-1%
	$ 99,262	**$ 92,610**	**6,652**	**7%**
Employee benefits as a percentage of salaries	27%	30%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $8.9 million in 2012–13, a decrease of $609,000 or approximately 6% over the previous year. A variety of factors influenced these expenses.

OPERATING AND ADMINISTRATIVE EXPENSES (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %	VARIANCE ANALYSIS
Rent	$ 2,302	$ 2,191	111	5%	The increase was due to the increase in base rent, as per lease agreements, and in occupancy costs paid to landlords.
Professional services	1,793	1,227	566	46%	The increase was due to the following factors: • consulting services for human resources related to implementing a competency-based performance management system and for outplacement services; • legal services for various purposes; and • consulting services for services related to implementing an upgrade to the Corporation's ERP system and new functionalities, including fixed assets tracking, procurement and expense management.
Employee training and development (T&D)	1,559	1,596	(37)	-2%	The decrease was due to a drop in T&D activities during the year, which is related to reduction in the T&D spending target in 2012–13 due to the Deficit Reduction Action Plan (DRAP).
Telephone and data communications	672	724	(52)	-7%	The decrease was due primarily to lower cellular telephone costs for the Corporation.
Software maintenance	620	682	(62)	-9%	The reduction was related to lower costs for anti-virus software and maintenance costs for the document management system.
Travel	575	557	18	3%	The increase was due to a combination of inflation, higher levels of business activity and travel related to corporate initiatives.
Office services, supplies and equipment	490	573	(83)	-14%	The decrease was due to lower spending on office services and supplies due to cost containment efforts under the DRAP.
Printing and stationery	181	236	(55)	-23%	The decrease was due to lower spending on printing-related costs, such as photocopier usage and printing supplies due to cost containment efforts under the DRAP.
Staff relocation	178	444	(266)	-60%	The decrease was due to lower levels of staff relocation activity during 2012–13. The need for staff relocations from year to year is highly variable and not necessarily related to business volume. The reduction is also partially related to cost containment efforts under the DRAP.
Client services and communications	129	125	4	3%	The change was not material.
Computer equipment	53	67	(14)	-21%	The decrease was due to a higher capitalization of purchases made in 2012–13. The Corporation's policy is to capitalize all purchases over $1,000.
Computer software	44	621	(577)	-93%	The decrease occurred because DCC spent less on software productivity tools. In the prior year, the Corporation purchased a significant number of individual software titles from suppliers, which each cost less than $1,000. The Corporation's policy is to capitalize all purchases over $1,000.
Recruiting	41	113	(72)	-64%	The decrease was due to significantly lower levels of recruitment activity during fiscal 2012–13.
Other	231	321	(90)	-28%	The decrease was due to lower expenditures on office furniture, leasehold improvements, memberships, subscriptions, and hospitality.
	$ 8,868	**$ 9,477**	**(609)**	**-6%**	

DEPRECIATION AND AMORTIZATION

Depreciation and amortization combined increased by a total of 4% or $53,000 in 2012–13. Amortization of intangible assets increased by $53,000 or 45% over the previous fiscal year due to the Corporation's capital costs over the past three fiscal years to buy and implement document management software and new modules for the enterprise resource planning (ERP) system. Depreciation of property, plant and equipment and of assets under financial lease did not vary significantly year over year.

DEPRECIATION AND AMORTIZATION (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Depreciation of property, plant and equipment	$1,062	$1,065	(3)	0%
Depreciation of assets under finance lease	118	115	3	3%
Amortization of intangible assets	170	117	53	45%
	$1,350	**$1,297**	**53**	**4%**

6.3 TOTAL COMPREHENSIVE INCOME

The total comprehensive income of the Corporation for the year ended March 31, 2013, was $7.3 million, compared with total comprehensive income of $9.0 million in the previous year, a decrease of 19% or $1.7 million.

The decrease in net income of $3.3 million or 37% is due to a combination of factors, including a freeze in billing rates, an increase in salaries and benefits of 7%, and a decrease of 1% in staff utilization. The decrease in net income is consistent with the Corporation's policy to manage its cash reserves at a level appropriate to meet current and future requirements.

The significant increase in other comprehensive income from $98,000 in fiscal 2011–12 to $1.6 million in fiscal 2012–13 is due to a significant increase in the experience gain on the actuarial valuation of employee benefits.

TOTAL COMPREHENSIVE INCOME (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Net income	$ 5,636	$ 8,890	(3,254)	-37%
Other comprehensive income				
Actuarial gain on employee benefit obligations	1,627	98	1,529	1,560%
Total comprehensive income	**$ 7,263**	**$ 8,988**	**(1,725)**	**-19%**

6.4 LIQUIDITY AND CAPITAL RESOURCES

DCC's financial management policy is to generate and maintain sufficient cash to meet the Corporation's anticipated operating and capital requirements, to settle its financial obligations as they become due, and to maintain adequate cash reserves to meet contingencies that may arise.

The Corporation operates on a fee-for-service basis and receives no cash funding through government appropriations, nor does it maintain or have access to any lines of credit or other sources of borrowings. Thus, the Corporation's cash is generated solely from fees collected from DND for services provided.

Consistent with its mandate, the intent of the Corporation is to operate on a slightly better than break-even basis. The Corporation sets billing rates based on expected program and operating costs. However, unexpected increases in program services provided to DND, as well as DCC's success in achieving its own operating efficiencies, can result in margins that exceed its initial targets. Cash levels are constantly monitored and any cash surpluses judged to exceed operating requirements are reduced through future operating plans and budgets, particularly through the setting of billing rates for services provided to DND. In preparing its operating plans, the Corporation prudently allows for reasonable levels of cash contingencies in its financial projections to ensure that it has sufficient cash reserves to continue to fulfill its mandate and serve its Client-Partners in an effective and timely manner.

The objective of the cash management policy is to keep available sufficient cash reserves, recognizing the potential for short-term interruptions of collections of receivables, to meet DCC's obligations. Potential obligations considered in the cash management policy include salaries, benefits and other current operating costs; long-term employee benefits; and other obligations that may arise in relation to Government of Canada directives.

The Corporation considers several factors when determining the amount of cash reserves to maintain, including the planning and operating risk inherent in its operations. In particular, the risk associated with potential and unanticipated changes to the amount or timing of DND construction project expenditures has a direct impact on the amount or timing of services DCC provides and on the cash generated.

Although DCC has a secure client base from which it regularly collects receivables, several things can affect the timing of those collections. Routine delays in the Client-Partners approvals and processing of invoices can affect some collections from time to time.

There are no restrictions on the use of the Corporation's funds, and no legal or statutory obligations to segregate funds for any current or future liabilities, including future benefits for employees. As such, the Corporation does not have any segregated or restricted funds, and cash in excess of short-term operational and capital requirements is invested in accordance with the investment policy approved by the Board of Directors.

CASH REQUIREMENTS AND USES

Some of the more significant working capital cash requirements include payments for salaries, wages and benefits, leased office space, employee training and development, professional services, telecommunications, office supplies, and business travel. DCC also maintains and uses cash to buy computer hardware and software, as well as office furniture and equipment, and to pay for leasehold improvements.

Cash may also be required for costs associated with workforce adjustments, including relocations, if such adjustments are required as a result of unexpected fluctuations or changes in DND's infrastructure program.

CASH AND INVESTMENTS

Cash and investments totalled $35.9 million at March 31, 2013, an increase of $5.2 million or 17% from the previous year.

The cash balance at March 31, 2013, was $25.8 million, an increase of $5.0 million or 24% from the previous year. During 2012–13, the Corporation generated $6.6 million in cash from operating activities, spent $1.2 million on capital expenditures, invested $318,000 and paid $136,000 on finance lease obligations.

Investments (both current and long term) at March 31, 2013, were $10.1 million, an increase of $279,000 or 3% from the previous year. Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity. The Corporation currently invests in listed bonds and mutual funds that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

TRADE RECEIVABLES

Trade receivables are due from the Corporation's clients, mainly DND. At March 31, 2013, the amount of trade receivables was $21.7 million, which represents a decrease of $1.1 million or 5% over the previous year. The decrease was due to lower revenue in the last quarter of 2012–13 compared with the comparable quarter of the previous fiscal year.

CURRENT LIABILITIES

Current liabilities were $10.9 million at March 31, 2013, a decrease of $2.6 million or 19% from March 31, 2012. The decrease in current liabilities is due to a number of factors. They include a decrease in the current portion for employee benefits of $5.3 million due to payments of most of the allowance accumulated for retirement and resignation. This was offset by an increase in accounts payable of $941,000 due to the timing of payables, as well as an increase in accrued liabilities of $1.6 million at year end related to workforce adjustment liabilities.

LIQUIDITY AND CAPITAL RESOURCES (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Cash	$ 25,829	$ 20,869	4,960	24%
Investments	10,114	9,835	279	3%
Cash and investments	**35,943**	**30,704**	**5,239**	**17%**
Trade receivables	21,687	22,812	(1,125)	-5%
Current liabilities	**$ 10,926**	**$ 13,477**	**(2,551)**	**-19%**

6.5 EMPLOYEE BENEFITS

The Corporation records a liability for the estimated cost of sick leave and retirement allowance for active employees, and health care and life insurance benefits for its retirees. This estimate is actuarially determined. The accrual for employee benefits at March 31, 2013, was $14.6 million, a decrease of $6.2 million or approximately 30% from the previous year.

The balance decreased by $6.2 million due to the a number of factors, which include a decrease of $7.7 million for payments to settle a significant portion of the retirement allowance benefits; a decrease of $1.6 million for an experience gain, which was actuarially determined; a decrease of $432,000 related to the gain on settlement of retirement allowance benefits; an increase in current service costs for employees of $2.7 million; and an increase in the interest on present value of the obligation of $797,000.

The provision for employee benefits fluctuates from year to year due to a combination of factors, including the inflation rate; workforce changes; changes in the discount rate, which is determined by reference to market interest rates; changes in the average rate of salary increases; and changes in the average expected remaining service lifetime of active employees, due to changing demographics. Note 17 to the financial statements describes the actuarial assumptions used in determining the liability. This liability is primarily a non-current one and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, it has sufficient capital resources to meet its employee benefit payment obligations as they become due.

PROVISION FOR EMPLOYEE FUTURE BENEFITS (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Total employee benefits	$ 14,565	$ 20,806	(6,241)	-30%
Less: Current portion	172	5,504	(5,332)	-97%
Long-term portion	$ 14,393	$ 15,302	(909)	-6%

6.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for 2012–13 totalled $1.2 million, a decrease of $17,000 or 1% from the previous year. The decrease was mainly due to lower spending for leasehold improvements at Head Office, offset by higher spending on intangible assets (software and implementation costs related to the document management system that DCC started implementing in 2010–11). The Corporation also spent less on computer equipment because employee growth slowed and because DCC updated much of its older information technology infrastructure in prior years.

CAPITAL EXPENDITURES (IN $ THOUSANDS)

	2012–13	2011–12	CHANGE $	CHANGE %
Intangible assets	$ 318	$ 175	143	82%
Computer equipment	763	770	(7)	-1%
Furniture and equipment	56	81	(25)	-31%
Leasehold improvements	37	165	(128)	-78%
	$ 1,174	**$ 1,191**	**(17)**	**-1%**

6.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in 2012–13 with the projections in the Corporate Plan.

Services revenue was $7.8 million or 6% below plan, due mainly to lower-than-planned business volume.

Investment revenue was $148,000 or 33% above plan. This variance was primarily due to a higher-than-planned cash balance and returns on the investment portfolio.

Salaries and employee benefits were $6.9 million or 6% lower than plan. This decrease was largely the result of lower-than-planned staff growth and lower-than-planned service requirements of the client.

Operating and administrative expenses were $574,000 or 6% below plan. The decrease was largely due to lower-than-planned spending in areas such as training and development, relocation, software, recruiting, and office expenses, due to the Corporation's efforts to limit spending as part of the DRAP.

Depreciation and amortization were $284,000 or 17% lower than plan, due to lower-than-planned capital expenditures in 2012–13.

The variation in total comprehensive income compared with plan was the result of three major factors: a better gross margin rate; a decrease in operating and administrative expenses, expressed as a percentage of revenue; and a high actuarial gain on employee benefits.

Capital expenditures were $929,000 or 44% below plan, due to lower spending on leasehold improvements, office furniture and equipment, and software.

ACTUAL PERFORMANCE VERSUS PLAN (IN $ THOUSANDS)

	ACTUAL	PLAN	CHANGE $	CHANGE %
REVENUE				
Services	$ 114,541	$ 122,307	(7,766)	-6%
Investment	598	450	148	33%
	115,139	122,757	(7,618)	-6%
EXPENSES				
Salaries and employee benefits	99,262	106,120	(6,858)	-6%
Operating and administrative costs	8,891	9,465	(574)	-6%
Depreciation and amortization	1,350	1,634	(284)	-17%
	109,503	117,219	(7,716)	-7%
Profit for the year	5,636	5,538	98	2%
Items of other comprehensive income	1,627	-	1,627	100%
Total comprehensive income	7,263	5,538	1,725	31%
Capital expenditures	$ 1,174	$ 2,103	(929)	-44%

FIVE-YEAR SUMMARY FINANCIAL INFORMATION* (IN $ THOUSANDS)

	2012–13	2011–12	2010–11	2009–10	2008–09
REVENUE					
Services	$ 114,541	$ 111,806	$ 93,576	$ 89,654	$ 71,570
Investment	598	495	209	73	154
	115,139	112,301	93,785	89,727	71,724
EXPENSES					
Salaries and employee benefits	99,262	92,610	79,466	74,552	60,069
Operating and administrative costs	8,868	9,477	8,181	7,964	7,130
Depreciation and amortization	1,350	1,297	1,066	939	1,053
Finance costs	23	27	24	-	-
	109,503	103,411	88,737	83,455	68,252
Profit for the year	5,636	8,890	5,048	6,272	3,472
Other comprehensive income	1,627	98	369	853	-
Total comprehensive income	7,263	8,988	5,417	7,125	3,472
Retained earnings, beginning of year	28,388	19,400	13,983	6,858	3,386
Retained earnings, end of year	$ 35,651	$ 28,388	$ 19,400	$ 13,983	$ 6,858
ASSETS					
Cash	25,829	20,869	12,789	17,493	7,962
Investments	10,114	9,835	9,593	-	-
Trade receivables, prepaids and advances	22,405	23,789	19,871	16,984	15,917
Property, plant and equipment, and assets under finance lease	2,275	2,490	2,532	2,073	1,700
Intangible assets	560	428	370	111	110
	$ 61,183	$ 57,411	$ 45,155	$ 36,661	$ 25,689

	2012–13	2011–12	2010–11	2009–10	2008–09
LIABILITIES					
Accounts payable, related parties and accrued liabilities	$ 10,623	$ 7,853	$ 7,991	$ 7,911	$ 6,488
Finance lease obligation	344	364	354	287	-
Employee benefits	14,565	20,806	17,410	14,480	12,343
	25,532	29,023	25,755	22,678	18,831
EQUITY					
Share capital	-	-	-	-	-
Retained earnings	35,651	28,388	19,400	13,983	6,858
	35,651	28,388	19,400	13,983	6,858
	$ 61,183	$ 57,411	$ 45,155	$ 36,661	$ 25,689
CASH FLOWS FROM (USED IN):					
Operating activities	$ 6,610	$ 9,747	$ 6,664	$ 10,595	$ 3,161
Acquisition of property, plant and equipment, and intangibles	(1,134)	(1,191)	(1,616)	(1,064)	(1,334)
Acquisition of investments	(380)	(362)	(9,651)	-	-
Financial activities	(136)	(114)	(101)	-	-
Increase (decrease) in cash during the year	4,960	8,080	(4,704)	9,531	1,827
Cash, beginning of the year	20,869	12,789	17,493	7,962	6,135
Cash, end of the year	$ 25,829	$ 20,869	$ 12,789	$ 17,493	$ 7,962

*Note: Fiscal 2009–10, 2010–11, 2011–12 and 2012–13 figures are presented in accordance with International Financial Reporting Standards (IFRS).
Fiscal 2008–09 figures are presented in accordance with Canadian generally accepted accounting principles.

6.8 DEFICIT REDUCTION ACTION PLAN (DRAP)

In the 2011 Budget, the Government of Canada introduced the Deficit Reduction Action Plan (DRAP) as an initiative intended to achieve cost savings for the government. Through the Minister of Public Works and Government Services, the Corporation's Board received a letter asking it to do a review to support the DRAP. The DRAP is intended to achieve cost savings over three fiscal years: 2012–13, 2013–14 and 2014–15.

DCC identified a number of ways to reduce its indirect operating costs. It committed to improve service delivery processes to reduce the cost of its services to DND by 5%. DCC estimated it could save approximately $2.5 million annually—about 7% of its indirect operating costs of $35.4 million for fiscal 2011–12.

DCC identified three categories of cost savings: operational, salary and benefits, and corporate-wide savings. Regarding operational savings, DCC aimed to reduce service delivery costs by 5%, or $550,000, through efficiency gains. In relation to salaries and benefits, the Corporation expected to save $1.3 million by changing a number of policies. Across the Corporation, DCC proposed to save $650,000 by reducing various expenses. DCC measured these three initiatives using fiscal 2011–12 as a baseline for DRAP savings. The following table measures DCC's progress on each initiative it proposed under DRAP.

TYPE OF SAVINGS	DESCRIPTION OF MEASURE	TARGET	SAVINGS ACHIEVED	STATUS
CORPORATE-WIDE SAVINGS	DCC proposed reducing the external costs of training and development by reducing the target ratio from 2.5% of base salary expenses to 2% which is a component of the overall target of 4.5%. It suggested reducing cell phone costs by adopting the existing government standing offer wherever possible. It also proposed cutting the costs of relocation, internal audits, office supplies and business travel.	DCC proposed reducing the external costs of training and development by $405,000 annually; cell phone costs by $60,000; relocation costs by $50,000; spending on internal audits by $50,000; expenses for office supplies by $50,000; and business travel costs by $35,000. Combined, these measures would reduce general and administrative expenses by $650,000 annually.	Actual savings in 2012–13 were as follows: • training and development, $325,000; • cell phones, $71,000; • relocation $266,000; • internal audits, $80,000; • office supplies, $83,000. DCC did not reduce business travel costs. These costs rose by $18,000 when compared with the previous year, due to an increase in business requirements and corporate initiatives. Savings from corporate-wide initiatives totalled $807,000.	Achieved 124% of target
OPERATIONAL SAVINGS	DCC committed to reducing the cost of service delivery to DND.	DCC aimed for a 5% reduction in service delivery cost based on 2011–12 actuals. In 2011–12, the service delivery cost for $982.6 million in contract expenditures (which excludes deployed operations) was $54.3 million or 5.53%.	In 2012–13, the service delivery cost for $1.034 billion in contract expenditures was $55.0 million or 5.32%. DCC reduced service delivery costs by 4%, which represents a savings to DND of $2.17 million.	Achieved 80% of target in the first year of the plan
SALARY AND BENEFITS SAVINGS	DCC proposed eliminating the future accrual of retirement allowances; eliminating the excessive vacation payout policy; introducing a voluntary one-week leave without pay policy; implementing a voluntary reduced work week policy; and eliminating the bilingual bonus and language testing. Also, due to a reduction in health care premiums, DCC negotiated additional savings with its benefits provider in 2012–13.	These measures were to generate savings of $1.3 million over 2011–12 figures. Most of the items were benefits, and benefits as a percentage of salary expenses in 2011–12 were 30%.	DCC implemented all of the savings measures proposed except for the voluntary reduced work week policy. In 2012–13, DCC reduced benefits as a percentage of salary expense to 27% from 30% in 2011–12. This represents a savings of $2.4 million.	Achieved 185% of target

Overall, DCC achieved total DRAP savings of $5.4 million in fiscal 2012–13, or 216% of its DRAP target of $2.5 million.

7.0 OUTLOOK

Efficiency and cost effectiveness have been at the forefront of DCC's commitment to service since its inception in 1951; however, in the 2013–14 to 2017–18 planning period, these attributes will be more important than ever. It is a time of change for the Department of National Defence and the Canadian Armed Forces (DND/CAF). They are transitioning to a slower pace of operations following the end of the combat mission to Afghanistan and are looking toward new priorities, such as maintaining an appropriate presence in and surveillance of the Arctic.

At home, Canada's deficit-reduction activities are an important part of the country's fiscal strategy. They are designed to help Canada maintain its long-term economic prosperity. Canada's construction industry is becoming larger and much more complex, with an increase in the number of projects in the $1-billion range. Additionally, there are fewer construction firms and more foreign ownership, as well as a forecasted shortage of skilled labour, and all owners must keep up with new project management and delivery methodologies.

All of DCC's strategic initiatives are multi-year initiatives. As work progresses on them, they will affect the Corporation throughout the 2013–14 to 2017–18 planning period. Some of the initiatives have been carried over from past years and are progressing to the next phase of their development. Many of them relate to improving or optimizing existing technology infrastructure or business management systems. One of the newest initiatives is a review of the DCC mission, vision and values statements. Given the wide scope of changes to DCC's business over the past several years, and the fact that most DCC employees have been with the Corporation for less than five years, a review was warranted. DCC updated the statements in fall 2012. It will launch them in the next fiscal year, and there will be an ongoing awareness and engagement campaign around these key corporate messages. Other new initiatives relate to training and development, social media, corporate social responsibility, and external communications. Given the scope of these initiatives and the fact that they relate to people and behavioural changes, this work will unfold throughout the coming planning period and beyond.

Like the budgets for all Government of Canada organizations, the budget for the DND portfolio has been reduced. The reductions are designed to restrain growth, with a focus on administrative efficiency in areas that do not directly contribute to operational readiness. On a transaction-by-transaction basis, DCC advises DND on areas where the Department can achieve cost efficiencies.

Chapter 5 of the Report of the Auditor General of Canada, delivered to the House of Commons in fall 2012, focused on DND's real property management. It recommended that DND complete a strategy for managing its real property. It also recommended that DND implement cyclical and semi-annual review controls over DCC, as discussed in the 2008 memorandum of understanding. For both situations, DCC is well prepared and stands ready to support its Client-Partners.

DCC expects to support DND/CAF's implementation of the Canada First Defence Strategy. This task could include, for example, meeting infrastructure support requirements arising out of announcements under the National Shipbuilding Procurement Strategy (NSPS). The NSPS includes the Royal Canadian Navy's Arctic/Offshore Patrol Ship Project.

DCC's biggest current challenge is to maintain its flexibility to respond to DND's changing needs. DCC has its own cost-reduction commitments to meet, but it also needs to help DND meet its cost-reduction commitments without compromising its infrastructure. All Government of Canada spending is being reviewed to ensure efficiency and effectiveness.

The Corporation has included its DRAP savings commitments in the 2013–14 to 2017–18 financial projections presented in the Corporate Plan. These projections are based on certain assumptions and expectations regarding the DND/CAF infrastructure program, and the resulting nature and scope of infrastructure support services that DCC will be asked to deliver. Direct expenditures associated with increased demands for services will increase operating expenses in certain areas.

The construction industry is also changing rapidly. DCC will pay close attention to the conclusions of the Charbonneau Inquiry, which is looking into corruption and collusion in the Quebec construction industry. Through a fair and transparent contracting process, DCC protects the Crown's interests and those of its service partners. The Canadian Construction Association forecasts that the industry will need 319,000 new workers by 2020, just to replace those who have retired. Given these conditions, DCC is keenly aware that it must be recognized as an employer of choice so that it can recruit and retain the best employees.

DCC's Procurement Code of Conduct (PCC) was finalized this year. It outlines the ethical responsibilities of the suppliers who bid on contracts, and covers the values of openness, fairness and accountability in procurement. Any supplier who bids on or has been awarded a contract must abide by the obligations of the PCC, because these obligations form part of the contract. Going forward, DCC will measure the effectiveness of the PCC, report on compliance with it and act appropriately.

The Canadian construction industry is becoming larger and much more complex, with fewer construction firms, more foreign ownership, more service-integrated firms, quicker adoption of technology and greater private sector involvement in traditional business owner activities.

The *Global Construction 2020* report produced by Oxford Economics revealed several findings relevant to DCC's business. Relative to other countries, Canada is experiencing a construction boom. Some observers rate Canada as the fifth-largest construction market in the world. Investment in this industry could reach $300 billion by the end of 2013. The typical size of Canadian construction projects is increasing: there are 30 in Canada valued at $1 billion or more, and 61 valued at $500 million to $1 billion. This trend has continued over the past three years. There is also more global foreign competition in the Canadian construction market, particularly from European firms.

The construction industry is innovating to respond to increased and changing client demands, the pressure of global competition, and reduced human resources capacity. Procurement and project delivery methods are evolving, and clients are relying on the private sector to provide a greater range of deliverables. For example, the Government of Canada is considering lifecycle cost procurement strategies.

Over its 60-year history, DCC has become accustomed to working in the ever-evolving construction industry. It is well equipped to respond to the current climate. DCC will support recruitment and retention strategies to ensure it has a skilled and available workforce. It will continue to develop innovative procurement and contract management strategies to attract qualified contractors for defence projects, ensuring quality work at competitive prices. It will also continue to deal fairly with industry partners in the work they undertake.

DND does not provide a clear infrastructure program forecast that DCC can base its resource and expense planning on. DCC develops its own annual five-year forecast of the expected infrastructure program based on input from all DND groups it deals with, from headquarters to regional representatives.

DCC analyzes all data obtained and develops a forecast based on its experience in delivering the program over many years. Due to the volatility in actual program numbers, DCC has to manage two challenging situations:

- first, maintaining the right amount of resources to meet all of program requirements, and to support DND's infrastructure and environmental needs and approved budgets; and
- second, maintaining the flexibility and responsiveness to adjust resources as necessary in order to avoid a loss if program requirements drop dramatically.

7.1 FINANCIAL OUTLOOK

The Corporation has traditionally taken a conservative approach to forecasting future growth. Its latest Corporate Plan shows a decrease in revenue of approximately 4% in 2013–14, driven by anticipated lower business volume. **The Corporation has committed to a 0% increase in billing rates in fiscal 2013–14 and 2014–15.**

For the remaining plan years, revenue is forecast to increase moderately each year—by approximately 2% in 2014–15, by 3% in 2015–16, by 4% in 2016–17 and by 3% in 2017–18. DCC expects to raise billing rates by 0.5% in 2015–16, 3% in 2016–17 and 3.5% in 2017–18, after holding them at 2011–12 levels for three years. Service revenue is expected to grow by 2% in 2014–15, 2.5% in 2015–16 and 0.5% in 2016–17, then decrease by 1% in 2017–18. These forecasts are based on DCC's projections of future Client-Partner services demands.

Salary and benefits expenses for 2013–14 are forecast to increase by approximately 2.5% from those in 2012–13, due to a revenue decrease of approximately 4% and to a combination of inflation and performance-based merit increases totalling 5%. DCC has also allocated 1.5% for workforce adjustment in total salary and benefits expenses. The increases in salary and benefits expenses in 2014–15, 2015–16, 2016–17 and 2017–18 are 2%, 4%, 3% and 2%, respectively, and are due to a combination of factors, including expected increases for inflation and merit pay, and expected increases and decreases to the workforce, in line with projected changes in services revenue.

Operating and administrative expenses for 2013–14 are projected to increase by 4.5% from those in 2012–13. This increase includes increases related to inflation, workforce adjustment and ongoing corporate initiatives. Operating and administrative expenses are forecast to increase by 1% annually from 2014–15 to 2017–18. The increases in the latter part of the plan are related to inflation.

Depreciation and amortization are expected to increase by 20% in 2013–14 over figures in 2012–13, due mainly to the projected rise in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in depreciation and amortization over the remaining years of the plan.

A total comprehensive loss of $2.2 million is forecast for 2013–14, a decrease of 130% from the actual total comprehensive income of $7.3 million in 2012–13. The decrease is a result of holding billing rates at the 2011–12 level, along with increases in salary and benefits expenses, and operating and administrative expenses. In the remaining years of the plan, total comprehensive loss is expected to increase each year, from $2.4 million in 2014–15 to $3.8 million in 2017–18. The losses are expected as a way of reducing cash and investments to the optimal level, based on the Corporation's cash management policy.

Capital expenditures are projected to increase by 103% in 2013–14 over the previous year. The anticipated expenditures for the year ending March 31, 2014, will primarily relate to deployment of new technology to increase staff efficiency, and investments in corporate budgeting and reporting capabilities. Spending is projected to remain stable from 2014–15 to 2017–18 due to the expected capital replacement plans for information technology that will spread spending more evenly over the years.

FINANCIAL OUTLOOK (IN $ THOUSANDS)

	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18
	ACTUAL	**PLAN**	**PLAN**	**PLAN**	**PLAN**	**PLAN**
Services revenue	**$ 114,541**	$ 110,080	$ 112,502	$ 115,315	$ 119,351	$ 122,335
Investment revenue	**598**	460	450	400	350	275
Total revenue	**115,139**	110,540	112,952	115,715	119,701	122,610
Salaries and employee benefits	**99,262**	101,778	104,072	108,576	112,183	114,735
Operating and administrative expenses	**8,868**	9,270	9,363	9,457	9,552	9,648
Depreciation of property, plant and equipment	**1,062**	1,379	1,613	1,922	2,058	1,760
Depreciation of assets under finance lease	**118**	125	125	125	125	125
Amortization of intangible assets	**170**	120	120	120	120	120
Finance costs	**23**	30	30	30	30	30
	109,503	112,702	115,323	120,230	124,068	126,418
Profit (loss) for the year	**5,636**	(2,162)	(2,371)	(4,515)	(4,367)	(3,808)
Comprehensive income	**1,627**	-	-	-	-	-
Total comprehensive income (loss)	**7,263**	(2,162)	(2,371)	(4,515)	(4,367)	(3,808)
Capital expenditures	**$ 1,174**	$ 2,387	$ 2,250	$ 2,250	$ 2,250	$ 2,250

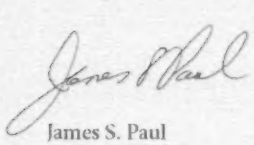
MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with International Financial Reporting Standards using management's best estimates and judgements where appropriate. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and bylaws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled, and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.



James S. Paul
President
and Chief Executive Officer

Angelo Ottoni
Vice-President, Corporate Services,
Chief Financial Officer and Treasurer

June 6, 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Defence Construction (1951) Limited, which comprise the statement of financial position as at 31 March 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of Defence Construction (1951) Limited as at 31 March 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Defence Construction (1951) Limited that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of Defence Construction (1951) Limited.

Marise Bédard

Marise Bédard, CPA, CA
Principal
for the Auditor General of Canada

6 June 2013
Ottawa, Canada

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2013

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTES	2013	2012
ASSETS			
Cash	5, 8	$ 25,829	$ 20,869
Investments	5, 14	1,206	554
Trade receivables	5, 9, 20	21,687	22,812
Prepaid and other current assets	10	718	977
Current assets		49,440	45,212
Investments	5, 14	8,908	9,281
Property, plant and equipment	11	1,954	2,167
Assets under finance lease	12	321	323
Intangible assets	13	560	428
Non-current assets		11,743	12,199
Total assets		$ 61,183	$ 57,411
LIABILITIES AND EQUITY			
Trade and other payables	5, 16, 20	$ 10,623	$ 7,853
Current portion - finance lease obligation	15	131	120
Current portion - employee benefits	17	172	5,504
Current liabilities		10,926	13,477
Finance lease obligation	15	213	244
Employee benefits	17	14,393	15,302
Non-current liabilities		14,606	15,546
Total liabilities		25,532	29,023
EQUITY			
Share capital - Authorized - 1,000 common shares of no par value			
Issued - 32 common shares		-	-
Retained earnings		35,651	28,388
Total equity		35,651	28,388
Total liabilities and equity		$ 61,183	$ 57,411

Commitments: see note 19
Contingent Liabilities: see note 22
The accompanying notes are an integral part of these financial statements.
Approved by the Board of Directors on June 6, 2013:

Marc Ouellet
Director

Shirley McClellan
Director

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2013

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTES	2013	2012
Services revenue	20	$ 114,541	$ 111,806
Investment revenue	7	598	495
Total revenue		115,139	112,301
Salaries and employee benefits		99,262	92,610
Operating and administrative expenses	6	8,868	9,477
Depreciation of property, plant and equipment	11	1,062	1,065
Depreciation of assets under finance lease	12	118	115
Amortization of intangible assets	13	170	117
Finance costs		23	27
Total expenses		109,503	103,411
Profit for the year		5,636	8,890
Other comprehensive income			
Items that will not be reclassified to profit for the year			
Actuarial gain on employee benefit obligations	17	1,627	98
Total comprehensive income		$ 7,263	$ 8,988

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED MARCH 31, 2013

(IN THOUSANDS OF CANADIAN DOLLARS)	SHARE CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
Balance at March 31, 2012	$ -	$ 28,388	**$ 28,388**
Profit for the year	-	5,636	**5,636**
Actuarial gain on employee benefit obligations	-	1,627	**1,627**
Balance at March 31, 2013	$ -	$ 35,651	**$ 35,651**

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2013

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTES	2013	2012
Cash flows from (used in) operating activities			
Profit for the year		$ 5,636	$ 8,890
Adjustments to reconcile profit for the year to cash provided by operating activities			
Employee benefits expense	17	3,095	4,310
Employee benefits payments	17	(7,709)	(816)
Depreciation of property, plant and equipment	11	1,062	1,065
Depreciation of assets under finance lease	12	118	115
Amortization of intangible assets	13	170	117
Amortization of investment premiums		101	120
Gain on sale of property, plant and equipment		(3)	-
Gain on sale of intangible assets		(14)	-
Change in non-cash operating working capital			
Trade receivables		1,125	(4,284)
Prepaid and other current assets		259	368
Trade and other payables		2,770	(138)
Net cash flows provided by operating activities		6,610	9,747
Cash flows from (used in) investing activities			
Acquisition of investments		(380)	(362)
Acquisition of property, plant and equipment	11	(856)	(1,016)
Acquisition of intangible assets	13	(318)	(175)
Proceeds from sale of property, plant and equipment		10	-
Proceeds from sale of intangible assets		30	-
Net cash flows used in investing activities		(1,514)	(1,553)
Cash flows used in financing			
Repayment of finance lease obligations		(136)	(114)
Net cash flows used in financing activities		(136)	(114)
Increase in cash during the period		4,960	8,080
Cash at the beginning of the period		20,869	12,789
Cash at the end of the period	8	$ 25,829	$ 20,869

Supplementary Cash Flow information: see note 18

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

UNLESS OTHERWISE STATED, ALL AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS

MARCH 31, 2013

NOTE 1: SUMMARY OF BUSINESS AUTHORITY AND OBJECTIVES

Defence Construction (1951) Limited (the "Corporation") was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation's Head Office is located at 350 Albert Street, Ottawa, Ontario, Canada. The Corporation is an agent Crown corporation named in Part 1 of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence (DND). Other government departments and agencies that play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

NOTE 2: BASIS OF PREPARATION AND PRESENTATION

2.1 BASIS OF PREPARATION AND PRESENTATION

These financial statements are prepared by the Corporation in accordance with the International Financial Reporting Standards (IFRS) issued by the Accounting Standards Board (AcSB). These financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Corporation.

2.2 CHANGES TO PRESENTATION AND CLASSIFICATION

Upon review of the financial statements, the Corporation changed the presentation of certain items in the statement of cash flows in order to provide information in a more reliable and relevant structure for the users of the financial statements. The changes made in the statement of cash flows were to utilize profit for the year instead of total comprehensive income to determine cash flow from operating activities and to disclose employee benefits payments as a separate item and not netted with employee benefits expense. These changes were made on a comparative basis.

The first change was to replace total comprehensive income with profit for the year as the start of the statement of cash flows. This change is to be consistent with the requirement to IAS 7 whereby profit or loss is adjusted for the effects of transactions that affect cash flows. The amount reported as at March 31, 2012 in the statement of cash flows was total comprehensive income of $8,988 and was changed to profit for the year of $8,890 in the financial statements as at March 31, 2013.

The second change to employee benefits disclosure in the statement of cash flows was to provide the users of the financial statements with more relevant information. The balance presented as at March 31, 2012 of $3,396 included the components of employee benefit expense, payments netted together and the actuarial gain. For a more consistent presentation with that adopted for 2013, the Corporation disclosed the amount as its components, employee benefit expenses of $4,310 and employee benefits payments of ($816). The actuarial gain of $98 from March 31, 2012 is not in the statement of cash flows as the statement adjusts profit for the year instead of total comprehensive income.

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

3.1 OVERALL CONSIDERATIONS

The significant accounting policies that the Corporation applied in preparing these financial statements are summarized below.

The financial statements have been prepared based on the historical cost except for financial instruments at fair value through profit and loss. They have also been prepared using accounting policies specified by IFRS that were in effect at the end of the reporting period (March 31, 2013) or that the Corporation adopted earlier.

These accounting policies have been used throughout all periods presented in the financial statements.

3.2 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

RECOGNITION AND INITIAL MEASUREMENT

The Corporation's financial assets and liabilities, including assets and liabilities designated as fair value through profit and loss, are initially recognized on the trade date on which the Corporation becomes a party to their acquisition.

A financial asset or liability is measured initially at fair value plus, for an item not recognized at fair value through profit and loss, transaction costs that are directly attributable to its acquisition.

CLASSIFICATION OF FINANCIAL ASSETS

At inception, a financial asset is classified at amortized cost or fair value.

A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Corporation assesses the business model at an asset level, as this best reflects the way the business is managed and information is provided to management.

In assessing whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Corporation considers the following:

- management's stated policies and objectives for the asset, and the operation of those policies in practice;
- how management evaluates the performance of the asset;
- the frequency of any expected asset sales; and
- whether assets that are sold are held for an extended period relative to their contractual maturity or are sold shortly after acquisition.

Financial assets held for trading are not held within a business model whose objective is to hold the assets in order to collect contractual cash flows.

CLASSIFICATION OF FINANCIAL LIABILITIES

The Corporation classifies its financial liabilities as measured at amortized cost or fair value through profit and loss.

FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date.

The Corporation measures the fair value using quoted prices in an active market, when available. If the market is not active, the Corporation establishes fair value using valuation techniques, including recent arm's-length transactions between knowledgeable, willing parties, if available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price—that is, the fair value of consideration given or received. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at that price.

IDENTIFICATION AND MEASUREMENT OF IMPAIRMENT

At each reporting date, the Corporation determines whether there is objective evidence that financial assets carried at amortized cost are impaired. A financial asset is impaired when objective evidence demonstrates a loss has occurred after the initial recognition of the asset.

3.3 CASH

For the purposes of the statements of cash flows, cash includes cash on hand and in banks.

3.4 INVESTMENTS

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturities. The Corporation currently holds listed bonds and mutual fund accounts that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. Interest income is accrued when earned and included in income for the year.

3.5 TRADE RECEIVABLES

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value. Subsequent measurement of trade receivables are at amortized cost.

The Corporation does not maintain an allowance for doubtful accounts, as all trade receivables are receivable from the Government of Canada.

3.6 INTANGIBLE ASSETS

Intangible assets include acquired and internally developed software used in business operations. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted as an intangible asset. They are accounted for using the cost model, whereby capitalized costs are amortized on a straight-line basis over their estimated useful life. The estimated useful life of software is three to 10 years.

Items of intangible assets measured at cost not in use are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. The recoverable amount is the greater of fair value less cost to sell and value in use.

Amortization has been presented as "Amortization of Intangible Assets."

3.7 PROPERTY, PLANT AND EQUIPMENT, AND ASSETS UNDER FINANCE LEASE

Computer equipment, furniture and fixtures, leasehold improvements, and assets under finance lease are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged so as to write off the cost over the estimated useful life of such assets, using the straight-line method. The following useful lives are used to calculate depreciation:

COMPUTER EQUIPMENT	3 to 5 years
FURNITURE AND FIXTURES	5 years
LEASEHOLD IMPROVEMENTS	5 to 10 years
ASSETS UNDER FINANCE LEASE	5 years

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in profit and loss.

Items of property, plant and equipment, and assets under finance lease measured at cost less depreciation and impairment losses are assessed for impairment at each reporting period. Assets are impaired when the recoverable amount is less than the carrying amount. The recoverable amount is the greater of the fair value less cost to sell and the value in use.

3.8 LEASES

Leases are classified as either operating or finance, based on the substance of the transaction at the inception of the lease. Classification is reassessed if the terms of the lease change.

OPERATING LEASE

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentive received by the lessor) are recognized in the statement of comprehensive income on a straight-line basis over the period of the lease.

FINANCE LEASE

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between the finance expenses and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit and loss.

3.9 TRADE AND OTHER PAYABLES

Trade and other payables are obligations to pay for goods and services that have been acquired in the ordinary course of business. Trade and other payables are classified as current liabilities if payment is due within one year or less. Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost.

3.10 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities to the Corporation for which the amount or timing is uncertain. Provisions are recognized when: (a) the Corporation has a current legal or constructive obligation as a result of past events; (b) an outflow of resources will likely be required to settle the obligation; and (c) the amount can be reliably estimated. If any of these conditions are not met, no provision shall be recognised and a contingent liability will be disclosed in note 22.

3.11 EMPLOYEE BENEFITS

Employees are entitled to specific retirement and retirement allowances and non-pension post-employment benefits. Each year, independent actuaries use the projected unit credit method to actuarially determine the net periodic expense. To do so, they make assumptions about such factors as the discount rate for obligations, expected mortality, the expected rate of future compensation and the expected health care cost trend rate. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized immediately in other comprehensive income and included in the statement of comprehensive income.

The Corporation provides post-employment benefits payable after completion of employment. The types of post-employment benefits include extended health care and paid-up life insurance.

The Corporation provides sick leave as other employee benefits. Sick leave is accumulated by employees and available in case of absence from work. Accumulated sick leave is not paid out when the employee leaves the Corporation.

3.12 PENSION BENEFITS

Substantially all of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Under current legislation, the Corporation has no legal or constructive obligation to make further contributions for any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

3.13 REVENUE RECOGNITION

The Corporation does not generate revenue from the sale of goods, from dividends or from royalties.

SERVICE REVENUE

Revenue comes from the delivery of services to the client. It is measured by reference to the fair value of consideration received or receivable for services provided.

Revenue is recognized when the amount of revenue can be measured reliably, the economic benefits associated with the transaction flows to the Corporation and the costs incurred, or to be incurred, can be measured reliably.

Revenue from an arrangement to provide services is recognized using the time and materials method as the agreed rates as labour hours are delivered and direct expenses are incurred and using the fixed fee method where the client is billing a regular monthly amount.

INVESTMENT REVENUE

Investment revenue is recognized on an accrual basis using the effective interest method.

3.14 TAXATION

The Corporation is not subject to corporate taxation under section 149(1)(d) of the *Income Tax Act*.

3.15 FUTURE CHANGES IN ACCOUNTING POLICIES

The Corporation has reviewed new and revised accounting pronouncements that have been issued by the International Accounting Standards Board (IASB) but are not yet effective and have not been early adopted, to determine the impact on the Corporation.

The following new and revised accounting pronouncements have been issued but do not affect the Corporation:

IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 27 " Separate Financial Statements", IAS 28 "Investment in Associates and Joint Ventures", IAS 32 "Offsetting Financial Assets and Financial Liabilities".

The following new and revised accounting pronouncements have been issued and the effect to the Corporation has not been determined:

IAS 1 PRESENTATION OF FINANCIAL STATEMENT ("IAS 1")

IAS 1 was amended to revise the way other comprehensive income is presented. The adoption of this amendment is not expected to have an impact on the Corporation's financial statements. IAS 1 is applicable for fiscal years beginning on or after July 1, 2012.

IFRS 13 FAIR VALUE MEASUREMENT ("IFRS 13")

IFRS 13 defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS standards that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Corporation's financial statements.

IAS 19 EMPLOYEE BENEFITS ("IAS 19")

IAS 19 was issued with the following amendments:

- A requirement for interest income on plan assets to be computed with a discount rate used to measure the plan obligation.
- A requirement for the cost of managing plan assets to be recorded against the actual return on assets.
- Immediate recognition in net profit or loss of unvested past service costs and credits resulting from plan amendments.
- Possible changes in timing of recognition of termination benefits.
- Elimination of the corridor method to defer actuarial gains and losses.
- Enhanced disclosures highlighting risks arising from defined benefit plans.

Most of the amendments do not affect the Corporation as there are no assets in the employee benefits plan, and the Corporation does not use the corridor method. The revised IAS 19 will likely require additional disclosures only and will not affect the valuation of the plan obligations.

IFRS 9 FINANCIAL INSTRUMENTS ("IFRS 9")

The Corporation has elected to apply IFRS 9 *Financial Instruments* (as amended in October 2010) early. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2015. The Corporation applied this IFRS retrospectively as of the first date on which IFRS applied, April 1, 2010 (note 5).

IFRS 9 defines two primary measurement categories for financial assets: amortized cost and fair value. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

For investments in equity instruments that are not held for trading, IFRS 9 allows an irrevocable election, on an investment-by-investment basis, to present fair value changes from the investment in other comprehensive income. Dividends on such investments are generally recognized in profit and loss.

IFRS 9 requires that the effects of changes in the credit risk of liabilities designated as at fair value through profit and loss be presented in other comprehensive income, unless such treatment would create or enlarge an accounting mismatch in profit and loss. In that case, all gains and losses on that liability are presented in profit and loss.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES

Under the Corporation's accounting policies described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 DEPRECIATION AND AMORTIZATION

The Corporation reviews the estimated life of property, plant and equipment, intangible assets, and assets under finance lease at each year end. As a result of this review, there were no changes required in the current period.

4.2 EMPLOYEE BENEFITS

The Corporation provides employee benefits to cover extended health care, life insurance and sick leave benefits. The determination of expenses and obligations associated with employee benefits requires the use of assumptions about such factors as the discount rate for measuring obligations, mortality rates, the rate of future compensation and health care cost trends. Because determining the expenses and obligations associated with employee benefits requires the use of such assumptions, measurement uncertainty is inherent in the actuarial valuation process. Actual results may differ from results estimated based on assumptions. See note 17 for further details.

NOTE 5: FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION

	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
As at March 31, 2013					
Cash	$ 25,829	$ –	$ –	$ 25,829	$ 25,829
Investments	–	–	10,114	10,114	10,659
Trade receivables	–	–	21,687	21,687	21,687
Other current assets	–	–	17	17	17
Total financial assets	**$ 25,829**	**$ –**	**$ 31,818**	**$ 57,647**	**$ 58,192**
Trade and other payables	$ –	$ –	$ 10,623	$ 10,623	$ 10,623
Total financial liabilities	**$ –**	**$ –**	**$ 10,623**	**$ 10,623**	**$ 10,623**

	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
As at March 31, 2012					
Cash	$ 20,869	$ –	$ –	$ 20,869	$ 20,869
Investments	–	–	9,835	9,835	10,249
Trade receivables	–	–	22,812	22,812	22,812
Other current assets	–	–	22	22	22
Total financial assets	**$ 20,869**	**$ –**	**$ 32,669**	**$ 53,538**	**$ 53,952**
Trade and other payables	$ –	$ –	$ 7,853	$ 7,853	$ 7,853
Total financial liabilities	**$ –**	**$ –**	**$ 7,853**	**$ 7,853**	**$ 7,853**

5.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets subject to credit risk as at March 31, 2013, was $57,647 (as at March 31, 2012, it was $53,538) and represented the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset. The Corporation minimizes credit risk on cash by depositing the cash only with reputable and high-quality financial institutions. The Corporation has no significant exposure to credit risk on trade receivables, as all of the trade receivables are due from the Government of Canada. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of trade receivables with any one customer. Based on historic default rates and the aging analysis in note 9, Trade Receivables, the Corporation believes that there are no requirements for an allowance for doubtful accounts. Other current assets consist of balances related to travel advances to employees and computer loans to employees. Prepaids are not included in other current assets.

5.2 LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities as at March 31, 2013, was $10,623 (as at March 31, 2012, it was $7,853) and represented the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low, since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. Maturity analysis in note 16 shows low risk as virtually all obligations are current. In addition, as at March 31, 2013, the Corporation's financial assets exceeded its financial liabilities by $47,024 (as at March 31, 2012, its financial assets exceeded its financial liabilities by $45,685).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

As at March 31, 2013	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	6 MONTHS OR LESS	MORE THAN 6 MONTHS
Accounts payable	$ 3,767	$ 3,767	$ 3,767	$ –
Accrued vacation and overtime	3,266	3,266	3,266	–
Accrued liabilities	2,593	2,593	2,593	–
Commodity taxes payable	997	997	997	–
Trade and other payables	**$ 10,623**	**$ 10,623**	**$ 10,623**	**$ –**

As at March 31, 2012	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	6 MONTHS OR LESS	MORE THAN 6 MONTHS
Accounts payable	$ 2,826	$ 2,826	$ 2,826	$ –
Accrued vacation and overtime	3,480	3,480	3,480	–
Accrued liabilities	731	731	731	–
Commodity taxes payable	816	816	816	–
Trade and other payables	**$ 7,853**	**$ 7,853**	**$ 7,853**	**$ –**

5.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation's financial assets and liabilities are not exposed to fluctuations in currency risk, given their underlying nature and characteristics.

The Corporation is exposed to fluctuations in interest rates on its investments. As at March 31, 2013, all of the investments ($10,114) were in fixed interest-bearing instruments (as at March 31, 2012, the comparable figure was $9,835). Fluctuations in the interest rate would affect the fair value of the instruments; however, management intends to hold these instruments until maturity. The Corporation has determined that the risk is not significant.

NOTE 6: OPERATING AND ADMINISTRATIVE EXPENSES

	2013	2012
Rent	$ 2,302	$ 2,191
Professional services	1,793	1,227
Employee training and development	1,559	1,596
Telephone and data communications	672	724
Software maintenance	620	682
Travel	575	557
Office services, supplies and equipment	490	573
Printing and stationery	181	236
Staff relocation	178	444
Client services and communications	129	125
Computer equipment	53	67
Computer software	44	621
Recruiting	41	113
Other	231	321
	$ 8,868	$ 9,477

NOTE 7: INVESTMENT REVENUE

	2013	2012
Interest from:		
Bank deposits	$ 304	$ 205
Investments	294	290
	$ 598	$ 495

NOTE 8: CASH

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Cash in the bank	$ 25,829	$ 20,869

There are no restrictions on cash.

NOTE 9: TRADE RECEIVABLES

Trade receivables are due entirely from related parties (see note 20).

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Trade receivables	$ 21,687	$ 22,812

The aging of the trade receivables was as follows:

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Current	$ 12,325	$ 11,369
Past due 0–30 days	8,688	11,332
Past due 31–60 days	521	–
Past due 61–90 days	–	115
Past due 91 plus days	153	(4)
	$ 21,687	$ 22,812

NOTE 10: PREPAID AND OTHER CURRENT ASSETS

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Prepaid expenses	$ 549	$ 829
Other receivables	152	126
Employee advances	15	9
Travel advances	2	13
	$ 718	$ 977

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Cost	$ 7,885	$ 7,039
Less: Accumulated depreciation	5,931	4,872
Net book value	$ 1,954	$ 2,167
Net book value, by asset class		
Computer equipment	$ 1,440	$ 1,348
Furniture and fixtures	294	369
Leasehold improvements	220	450
Net book value	$ 1,954	$ 2,167

The changes in property, plant and equipment are shown in the following table:

	COMPUTER EQUIPMENT	FURNITURE AND FIXTURES	LEASEHOLD IMPROVEMENTS	TOTAL
Cost				
Balance as at March 31, 2011	$ 2,898	$ 1,910	$ 1,679	$ 6,487
Plus: Additions	770	81	165	1,016
Less: Disposals	376	88	–	464
Balance as at March 31, 2012	$ 3,292	$ 1,903	$ 1,844	$ 7,039
Plus: Additions	763	56	37	856
Less: Disposals	10	–	–	10
Balance as at March 31, 2013	$ 4,045	$ 1,959	$ 1,881	$ 7,885

The changes in accumulated depreciation are shown in the following table:

	COMPUTER EQUIPMENT	FURNITURE AND FIXTURES	LEASEHOLD IMPROVEMENTS	TOTAL
Accumulated depreciation				
Balance as at March 31, 2011	**$ 1,751**	**$ 1,448**	**$ 1,072**	**$ 4,271**
Plus: Depreciation	569	174	322	1,065
Less: Disposals	376	88	–	464
Balance as at March 31, 2012	**$ 1,944**	**$ 1,534**	**$ 1,394**	**$ 4,872**
Plus: Depreciation	664	131	267	1,062
Less: Disposals	3	–	–	3
Balance as at March 31, 2013	**$ 2,605**	**$ 1,665**	**$ 1,661**	**$ 5,931**

There is no impairment of property, plant and equipment.

NOTE 12: ASSETS UNDER FINANCE LEASE

Assets under finance lease consist of multi-function copiers leased under finance arrangements by the Corporation.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Cost	**$ 690**	$ 610
Less: Accumulated depreciation	**369**	287
Net book value	**$ 321**	$ 323

The changes to assets under finance lease are detailed in the following table:

	TOTAL
Cost	
Balance as at March 31, 2011	**$ 563**
Plus: Additions	122
Less: Disposals	75
Balance as at March 31, 2012	**$ 610**
Plus: Additions	116
Less: Disposals	36
Balance as at March 31, 2013	**$ 690**

The changes in accumulated depreciation are shown in the following table:

	TOTAL
Accumulated depreciation	
Balance as at March 31, 2011	**$ 247**
Plus: Depreciation	115
Less: Disposals	75
Balance as at March 31, 2012	**$ 287**
Plus: Depreciation	118
Less: Disposals	36
Balance as at March 31, 2013	**$ 369**

There is no impairment of assets under finance lease.

NOTE 13: INTANGIBLE ASSETS

Intangible assets consist of software purchased by the Corporation.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Cost	$ 4,555	$ 4,267
Less: Accumulated amortization	3,995	3,839
Net book value	**$ 560**	**$ 428**

Changes to intangible assets are detailed in the following table:

	TOTAL
Cost	
Balance as at March 31, 2011	**$ 4,092**
Plus: Additions	175
Less: Disposals	–
Balance as at March 31, 2012	**$ 4,267**
Plus: Additions	318
Less: Disposals	30
Balance as at March 31, 2013	**$ 4,555**

Changes to accumulated amortization are detailed in the following table:

	TOTAL
Accumulated amortization	
Balance as at March 31, 2011	**$ 3,722**
Plus: Amortization	117
Less: Disposals	-
Balance as at March 31, 2012	**$ 3,839**
Plus: Amortization	170
Less: Disposals	14
Balance as at March 31, 2013	**$ 3,995**

There is no impairment of intangible assets.

NOTE 14: INVESTMENTS

Investments consist of Canadian, provincial and corporate bonds with fixed interest rates ranging from 3.15% to 6.00%, and mutual funds with variable interest rates. The maturity dates of the bonds vary from 2013 to 2026 and are intended to be held to maturity. The mutual fund accounts can be liquidated on demand. The carrying amounts, measured at the amortized cost and fair value of these investments, are shown in the following table.

The fair value of the investments can be determined by: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The fair values of the investments are determined from quote prices in active markets which is Level 1.

The current portion of investments consists of instruments maturing in the next 12 months.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Carrying amount at amortized cost:		
Bonds	$ 9,809	$ 9,780
Mutual Funds	305	55
	$ 10,114	$ 9,835

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Current portion	$ 1,206	$ 554
Non-current portion	8,908	9,281
	$ 10,114	$ 9,835

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Fair value:		
Bonds	$ 10,354	$ 10,194
Mutual Funds	305	55
	$ 10,659	$ 10,249

NOTE 15: FINANCE LEASE OBLIGATION

The net book amount of the finance lease obligation was $344 as at March 31, 2013, and $364 as at March 31, 2012 for multi-function copiers held under finance leases. The Corporation added $116 in lease obligations in the year ended March 31, 2013, and $122 in the comparable period ended March 31, 2012.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Current portion	$ 131	$ 120
Non-current portion	213	244
Finance lease obligation	**$ 344**	$ 364

The leases are for a term of five years from the inception of the lease. Interest rates underlying the obligations under finance leases are fixed at contract dates and range from 3% to 29% per annum. The reconciliation of the minimum lease payments is shown in the following table.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Minimum lease payments		
Within one year	$ 147	$ 140
Within two to five years	226	266
	373	406
Less: Future finance charges included in lease payments		
Within one year	16	20
Within two to five years	13	22
	29	42
Finance lease obligation	**$ 344**	$ 364

No contingent rents are included in the finance leases. No sublease payments are expected for any finance lease as at the date of the statement of financial position. There are no terms of renewal, purchase options or escalation clauses in the leases, and no restrictions are imposed due to the lease arrangements.

NOTE 16: TRADE AND OTHER PAYABLES

Trade and other payables of the Corporation principally comprise amounts outstanding for trade purchases relating to corporate activities, accruals for employee vacations and overtime, and payroll and commodity taxes. The usual credit period for trade purchases is 30 days.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Accounts payable	$ 3,767	$ 2,826
Accrued vacation and overtime	3,266	3,480
Accrued liabilities	2,593	731
Commodity taxes payable	997	816
	$ 10,623	$ 7,853

The following is an aged analysis of the accounts payable.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Less than one month	$ 3,693	$ 2,816
One to three months	73	2
Three to six months	1	8
	$ 3,767	$ 2,826

Accounts payable include balances with related parties. (See also note 20.)

	NOTE	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Third-party balances		$ 3,672	$ 2,813
Related-party balances	20	95	13
		$ 3,767	$ 2,826

NOTE 17: EMPLOYEE BENEFITS

17.1 POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Post-employment and other long-term employee benefits represent the Corporation's liability for the estimated costs of sick leave for employees, retirement allowance for employee at retirement as well as health and life insurance benefits for its retirees. The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
Total for employee benefits	$ 14,565	$ 20,806
Less: Current portion	172	5,504
	$ 14,393	$ 15,302

The health care cost trend rate is assumed to exceed inflation by 2.5% per annum for future years. The measurement date for the last actuarial valuation of the provision for employee benefits was April 1, 2013. The next actuarial valuation is planned for April 2014.

The Corporation amended its employee benefits regarding employee retirement allowance for all positions as at March 31, 2012. As at March 31, 2012, employees no longer accrue retirement allowance benefits for retirement. Management paid out $6,881 in the year ended March 31, 2013 to settle nearly all of the retirement allowance outstanding. Employees had been offered the option of taking a lump sum payout of the accrued retirement allowance benefits or leaving the current retirement allowance benefit to be paid out upon retirement. The amount remaining to be paid to employees upon retirement is $758. The Corporation realized a gain of $432 on the portion settled.

The significant actuarial assumptions adopted in measuring the Corporation's retirement allowance and non-pension benefits are as follows.

	2013	2012
Discount rate for projected benefit obligation	4.35%	4.35%
Average rate of general salary increases	3.50%	3.50%
Inflation rate	2.50%	2.50%
Assumed health care cost trend rate	5.00%	5.00%
Ultimate heath care cost trend rate	5.00%	5.00%
Year ultimate health care cost trend rate is reached	2013	2012
Uninsured Pensioner 1994 with mortality projections to year 2020 (UP94@2020) for 2011 and 2010	UP94@2020	UP94@2020
Retirement age	62	62

Movement in the present value of the defined benefit obligation in the current year are as follows:

	2013	2012
Opening value of obligation	$ 20,806	$ 17,410
Current service cost	2,730	3,285
Interest on present value of obligation	797	1,025
Actuarial gains	(1,627)	(98)
Gain on settlement of benefit	(432)	–
Employee benefit payments	(7,709)	(816)
Closing value of benefit obligation	$ 14,565	$ 20,806

Amounts recognized in profit for the year in respect of these defined benefit plans are as follows:

	2013	2012
Current service cost	$ 2,730	$ 3,285
Interest on present value of obligation	797	1,025
Gain on settlement of benefit	(432)	–
Employee benefit expenses	$ 3,095	$ 4,310

Reconciliation of the actuarial gain and losses flowing through other comprehensive income (OCI) are as follows:

	2013	2012
Opening amount of actuarial gain previously recognized in OCI	$ (1,319)	$ (1,221)
Actuarial gains recognized in the current period	(1,627)	(98)
Closing amount of actuarial gains recognized through OCI	$ (2,946)	$ (1,319)

Historical information

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012	AS AT MARCH 31, 2011	AS AT MARCH 31, 2010
Present value of defined benefit obligation	$ 14,565	$ 20,806	$ 17,410	$ 14,480
Fair value of plan assets	–	–	–	–
Deficit in the plan	$ 14,565	$ 20,806	$ 17,410	$ 14,480
Experience adjustments arising on plan liabilities	$ (1,627)	$ (98)	$ (369)	$ (852)

The Corporation will expense $2,488 in 2014 (2013 – $2,764) for current service costs related to employee benefits.

17.2 PENSION BENEFITS

Almost all of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Employees and the Corporation must both contribute. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was 11.84% (2012 – 13.08%). Total contributions of $9,267 (2012 – $8,769) were recognized as expense in the current year.

The Government of Canada has a statutory obligation to pay benefits under the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Quebec Pension Plan benefits and are indexed to inflation.

NOTE 18: SUPPLEMENTAL CASH FLOW INFORMATION

	2013	2012
Interest paid on finance leases	$ 23	$ 27
Interest received on bank deposits	$ 304	$ 205
Interest received on investments	$ 380	$ 362
Income taxes	$ –	$ –

NOTE 19: LEASE COMMITMENTS

The Corporation leases office space for its operations to meet client requirements. The Corporation has entered into leases for the co-location of Department of National Defence (DND) and Corporation staff to jointly deliver services. These co-location leases are recoverable from DND.

As at March 31, 2013	CORPORATION LEASES	CO-LOCATION LEASES	TOTAL
2014	$ 1,794	$ 3,082	$ 4,876
2015	437	2,942	3,379
2016	395	2,802	3,197
2017	191	242	433
2018	–	–	–
	$ 2,817	$ 9,068	$ 11,885

As at March 31, 2012	CORPORATION LEASES	CO-LOCATION LEASES	TOTAL
2013	$ 2,366	$ 2,769	$ 5,135
2014	1,963	2,769	4,732
2015	642	2,240	2,882
2016	605	158	763
2017	335	16	351
	$ 5,911	$ 7,952	$ 13,863

NOTE 20: RELATED-PARTY TRANSACTIONS AND BALANCES

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the fair value, which is the actual amount of the consideration given or received for the services provided. The entire Corporation's services revenue of $114,541 (2012 – $111,806) was generated from services provided to DND. In the National Capital Region, Public Works and Government Services Canada manages DND facilities and pays the Corporation to engage contractors to provide infrastructure services.

The Corporation incurred expenses with other departments of the Government of Canada. These transactions totaled $309 ($178 – 2012).

In accordance with a memorandum of understanding between DND and the Corporation, DND is to provide office accommodations free of charge to the Corporation's service delivery personnel at DND-owned bases and wings and at other locations. Where office space is not provided, and for the Corporation's service delivery personnel who cannot be accommodated at a DND-owned facility, accommodation costs are recovered either as an out-of-pocket reimbursable disbursement or through the hourly billing rates established for the services provided.

	AS AT MARCH 31, 2013	AS AT MARCH 31, 2012
DUE FROM:		
Department of National Defence	$ 19,727	$ 21,248
Public Works and Government Services Canada	1,065	285
Canadian Forces Housing Agency	892	1,103
Communications Security Establishment Canada	3	176
	$ 21,687	$ 22,812
DUE TO:		
Department of National Defence	$ –	$ 4
Public Works and Government Services Canada	94	2
Canada School of Public Service	–	2
Environment Canada	1	5
	$ 95	$ 13

20.I COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are those persons—including directors of the Corporation—having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	2013	2012
Short-term benefits	$ 2,478	$ 2,457
Post-employment benefits	81	158
	$ 2,559	$ 2,615

NOTE 21: CAPITAL MANAGEMENT

The Corporation's objectives in managing capital are to safeguard the Corporation's ability to continue as a going concern and fulfill its stated mandate, generate sufficient cash to meet its anticipated operating and capital requirements, and settle its financial obligations as they come due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the planning and operating risks inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by the Department of National Defence. Cash levels are constantly monitored, and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into account in the determination of billing rates for future services. The Corporation's capital consists of its retained earnings.

NOTE 22: CONTINGENT LIABILITIES

22.1 LEGAL CLAIMS

The Corporation's efforts to resolve contract disputes are reflected in the number and value of contract claims before the courts. As at March 31, 2013, there were 15 ongoing claims totalling $10.2 million, including one under appeal. These figures compare with 18 ongoing claims with a total value of $13.5 million at March 31, 2012.

In accordance with the memorandum of understanding (MOU) between the Corporation and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by the Corporation. Thus, the financial risk associated with settling these contractual claims does not have any financial impact on the Corporation. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims.